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ECONOMIC SURVEY OF EUROPE 1961

Part 1. The European Economy in 1961



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ECONOMIC SURVEY OF EUROPE IN 1961

Part 1

THE EUROPEAN ECONOMY IN 1961

Prepared by the

SECRETARIAT OF THE
ECONOMIC COMMISSION FOR EUROPE

GENEVA, 1962
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NOTICE TO READERS

Following past practice, the SURVEY consists of two parts: Part 1, dealing with economic developments during 1961 and with current indications of future prospects; and Part 2, consisting of a study of some factors in economic growth in Europe in the 1950s (see prefatory note).

The SURVEY will be published as a complete volume later in the year; for the convenience of library and certain other readers it will be made available in cloth binding (hard cover) only.

To fulfil immediate needs, however, each part of the SURVEY is being issued, initially, in a separate paperbound edition, of which the present volume is the first.

Readers wishing to obtain copies of the complete, clothbound edition should place their orders with United Nations sales distributors (see back cover) or with the Sales Section, United Nations (New York or Geneva).

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Prefatory note

The present SURVEY is the fifteenth in a series of reports prepared by the secretariat of the Economic Commission for Europe to serve the needs of the Commission and to help in reporting on world economic conditions — a task which the Economic and Social Council of the United Nations has entrusted to the Department of Economic and Social Affairs.

One of the major purposes of the SURVEY, and of the periodic *Economic Bulletin*, is to analyse recent developments in the European economy and elsewhere which may significantly affect the economic framework within which governments have to determine their policies. It has been the practice in previous SURVEYS to supplement this review of the current situation with special studies of more general questions which are both of long-term importance and relevant to the current formulation of economic policies in European countries, and this practice is again being followed in the *Economic Survey of Europe in 1961*. The two parts of the SURVEY, however, are now to appear initially as separate publications (see notice to readers).

Part 1, which follows, reviews in Chapter I economic developments in western Europe during the past year and the prospects for the immediate future. Chapter II is devoted to a similar review of the rates and patterns of economic growth during 1961 in the countries of eastern Europe and the Soviet Union, and of the available indications of official views in these countries about the longer-term development of their economies.

Part 2 of the SURVEY, to be published later, will contain a single study entitled "Some factors in economic growth in Europe during the 1950s". The study will cover, to the extent that the available data will allow, all the countries of both western and eastern Europe. Two chapters will be devoted to an examination of the relationship of growth rates of output to inputs of labour and capital, on the basis of international comparisons of data covering the whole economy and each major sector of economic activity. The subsequent chapters will be designed to throw light on the possible significance of the statistical relationships between rates of input of labour and capital and growth of output exhibited by the countries under review. Some of the factors influencing the level and the productivity of labour and capital inputs will be examined, and reviews of developments in some selected countries will supplement the general sectoral analysis covering the whole of Europe.

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EXPLANATORY NOTES

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of the frontiers of any country or territory.

The following symbols have been used throughout this SURVEY :

- .. = not available or not pertinent;
- = nil or negligible;
- * = estimate by the secretariat of the Economic Commission for Europe.

In referring to combinations of years, the use of an oblique stroke—e.g. 1959/60—signifies a twelve-month period (say from 1 July 1959 to 30 June 1960). The use of a hyphen—e.g. 1958-1960—normally signifies either an average of, or a total for, the full period of calendar years covered (including the end years indicated).

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton. The definition of "billion" used throughout is one thousand million. Minor discrepancies in totals and percentages are due to rounding.

References in tables or charts to the OECD (Organization for Economic Co-operation and Development) refer to the western European members of that organization—i.e. excluding Canada and the United States.

In general, information received up to the end of February 1962 has been included in the SURVEY.

CHAPTER I

RECENT ECONOMIC DEVELOPMENTS IN WESTERN EUROPE

1. THE SOURCES OF SUPPLY AND DEMAND

(a) The growth of national output

The tempo of the western European boom changed in 1961—its third year—from *allegro* to *andante cantabile*. The volume of national output rose in all the countries of the region during the year, with an average increase for the industrialized economies of nearly 4.5 per cent. This represents a slower pace of advance than in 1960 (when the corresponding average was about 6.5 per cent), for which shortages of manpower and capacities and a slackening of total demand were jointly responsible. The unfaltering strength of demand in the two preceding years of the current boom had all but exhausted apparent reserves of manpower and capacity in most countries of the area by the early months of 1961. In the course of the year scarcities of these factors in several of the industrialized countries somewhat retarded the growth of output, which was at the same time affected by investment demand declining from its previous high pitch. In a way, the development of supply and demand in the course of 1961 marked the end of a phase. Both 1959 and 1960 were years of vigorous recovery and expansion from the preceding lull.¹ The progress achieved in 1961 consequently began from already high levels of production and utilization of resources, and it was in this context that national output grew in response to a changing constellation of demand forces. Yet, as one element of demand succeeded another in making the running, the pace of advance remained vigorous. And there is little reason to suppose, as will be shown below, that either demand or output will develop less swiftly in 1962 than in 1961.²

For the less industrialized countries of western Europe, data on the movement of supply and demand in 1961 are sparse. Greece, favoured by a good agricultural year, saw its total national output rise by

10 per cent—that is, more than twice as fast as in 1960. In Spain, despite unchanged agricultural output, the economy began to move out of the phase of stabilization, and net domestic product is provisionally estimated to have risen by nearly 4 per cent. In Turkey and Portugal—also economies where agricultural output bulks large in total national product—a rather poor harvest in the former may have resulted in a decrease in total output of the order of 3-4 per cent, but a rise of similar magnitude is reported in the latter.³

Broadly speaking, the industrialized countries of western Europe fall into two groups in terms of the development of output in 1961. The larger group comprises those economies whose growth of total product was constant or showed a moderate decline from 1960; the second consists of the only two countries—the Netherlands and the United Kingdom—whose rate of growth of output fell steeply; and, in a category by itself, Sweden was the only industrialized country to achieve a faster growth of output in 1961 than in 1960 (see Table 1). Among countries of the first group, Italy returned virtually the same rate of growth of total output—nearly 7 per cent—as in the previous year, a smaller increment of industrial production being offset by higher agricultural output.⁴ As can be seen from the table, the weakening in the rate of growth of total output was noticeable, but far from pronounced, in Norway, Ireland and France, and rather greater in Belgium and western Germany. In all but the first two of these countries the slackening expansion of industrial output was the prime cause of this development, although agricultural output also rose less fast. Norway maintained almost the same rate of increase of industrial production as in 1960, but the growth of total output was retarded by a slowing down in other sectors.

¹ Rates of growth of output from year to year were consequently exceptionally high.

² The Organization for Economic Co-operation and Development (OECD) has set 4.2 per cent as the possible and desirable average annual rate of expansion for its member countries between 1960 and 1970.

³ Gross material product in Yugoslavia rose by 5.5 per cent in 1961. Developments in the Yugoslav economy during the year are dealt with in section 5 of this chapter, and those in other southern European economies are briefly noted in section 4 (b).

⁴ Agricultural output rose by 6 per cent, compared with a decline of 3 per cent in 1960.

Both the Netherlands and the United Kingdom experienced a sharp deceleration of output in 1961—in the former from 8.1 per cent in 1960 to 2.5 per cent in 1961, and in the latter from 4.6 per cent to some 2 per cent. Since each country had enjoyed an exceptionally rapid expansion in the previous year, this decline seems, at first sight, more serious than in truth it was.⁵ The very modest increase in British output was very largely the result of the measures of restraint of demand introduced in July 1961. In the Netherlands, in contrast, scarcity of manpower, which is likely to be short-lived, largely accounted for the slower progress.⁶ Sweden, alone among the industrialized countries, accelerated its expansion in 1961—to a rate of 4.7 per cent, compared with 4 per cent in 1960. This auspicious result was achieved thanks to a quickening expansion of output in the agricultural and service sectors, and in spite of a slackening tempo of growth of production in industry and forestry.⁷

(b) The changing pattern of demand

Taking western Europe as a whole, a significant feature of 1961 was the disappearance of overseas demand as a factor of growth: exports to overseas destinations were unchanged in volume from 1960. Since the expansion of intra-western European trade was less than in 1960, the growth of total export demand was also generally slower in 1961; and, as is shown in Table 1, the decline in the rate in France, the Netherlands and Sweden was very steep. But investment demand continued to gather strength until the closing months of the year; and although its rate of increase could not fully offset the absence of expanding overseas export demand, investment supplanted exports as the driving force behind the boom. Towards the end of the year, however, a certain slackening in the rate of increase of investment began to set in. At the same time consumers' demand was growing more buoyant. In general, and abstracting from the diverse experience of individual countries mentioned below, it seems at the time of writing that investment will be replaced by consumption as the mainstay of expansion in the course of 1962.

⁵ For the decade of the fifties, for example, the Netherlands had an annual average rate of growth of 4.8 per cent and the United Kingdom a corresponding rate of 2.4 per cent. Rates of growth of output—both for the economy as a whole, and by sectors and branches—in Europe during the fifties are the subject matter of Part 2 of this SURVEY—“Some Factors in Economic Growth in Europe during the 1950s” (to be published later this year).

⁶ In the Netherlands a shortening of the working week by some 3 per cent in industry and most services was not offset by a faster growth of productivity. Agricultural output also fell by 3 per cent. The effect on production of the revaluation of the guilder has probably been small.

⁷ Switzerland probably maintained the rate of growth—about 6 per cent—achieved in 1960.

Fixed investment

The volume of resources devoted to fixed investment by the industrial countries of western Europe increased, on average, by nearly 8 per cent in 1961. This represents a barely perceptible decline from the rate of growth recorded in 1960, although quarterly data would probably show a more pronounced deceleration in the course of the year. In general, the continued upthrust to total outlays on fixed investment came from higher spending by private industry on plant and equipment. Investment in dwellings construction continued at a high level, but rose more slowly.

Beyond the statement that demand for dwellings construction is strong, and the level of activity in the building industry high, it is singularly difficult to generalize about the development of this sector in 1961. In many countries—Denmark, the Netherlands, western Germany and the United Kingdom, for example—the building industry was under strain in 1961 as a result of the sustained vigour of demand for the third year in succession; and in some there were signs of a related decline in the numbers of authorizations issued for new construction. The volume of investment in dwellings in the United Kingdom was about 5 per cent greater in 1961 than in 1960. In western Germany the strain on the building industry resulted, first, in a growing backlog of uncompleted dwellings and, second, in increases in costs which in turn induced a decline in the number of building permits sought. The housing sector in France increased its output by only about 2 per cent, although completions are an inadequate guide given the significant increase in maintenance work resulting from changes in rent control. Demand for housebuilding in both Denmark and the Netherlands scarcely diminished, despite governmental measures of restraint, and the number of dwellings under construction in both countries was nearly 20 per cent higher in 1961 than in the previous year.

Industrial investment in fixed assets rose in 1961 at rates of between 10 and 20 per cent in the four major industrial economies of western Europe—France, western Germany, Italy and the United Kingdom. It is estimated that industrial investment in France was 12-14 per cent greater than in 1960, almost wholly owing to the investment outlays of the private sector, since investment in the public enterprises was virtually unchanged from 1960. In western Germany the value of total investment in industry is put by IFO⁸ at some 20 per cent higher than in 1960, despite a marked decline in profits; but the increment, compared with the corresponding 1960 level, dwindled steadily throughout the year. The increase

⁸ Institut für Wirtschaftsforschung, Munich.

TABLE 1
Supply and use of resources in certain western European countries

Percentage change in volume from the previous year

		Resources			Utilization						
		Gross national product	Imports of goods and services	Total	Gross fixed investment				Private consumption	Public consumption	Exports of goods and services
					Total	Residential construction	Other construction	Machinery and equipment			
Austria	1959	3.6	13.5	5.8	4.5	6.5	5.8	3.0	5.0	3.1	9.1
	1960	8.2	18.9	10.8	13.2	4.1	6.8	19.9	7.1	3.7	12.2
	1961	5	..	..	..	..	..	6.5 ^a	7 ^a	..	..
Finland ^a	1959	6.3	19.8	8.0	8.5	..	..	..	— 6.4 —	—	14.9
	1960	8.4	25.5	11.5	18.9	..	..	..	— 7.1 —	—	14.3
	1961	5	11	6	7	..	..	..	— 5 —	—	8
France	1959	2.3	-1.1	1.8	0.3	— 1.7 —	—	-1.1	1.7	4.9	10.8
	1960	6.2	15.8	7.4	6.2	— 4.4 —	—	8.1	5.3	3.3	13.9
	1961	4.7	6	5	7.5	— .. —	—	..	5.5	3.5	4
Western Germany .	1959	6.7	18.6	8.9	11.2	10.2	13.0	10.7	5.7	9.0	13.7
	1960	8.8	16.8	10.0	11.6	— 7.1 —	—	16.3	7.1	7.6	13.5
	1961	5.3	9	6	9	— 6 —	—	12	7.5	6.5	4
Greece	1959	3.7	8.9	4.7	15.9	-4.2	19.2	26.2	1.5	8.4	3.5
	1960	4.3	31.8	9.8	36.4	8.7	26.2	55.5	4.7	8.4	8.3
	1961	10	..	..	..	..	..	..	..	..	..
Ireland	1959	4.4	9.8	6.0	4.6	8.1	7.4	1.2	1.6	3.5	1.7
	1960	5.3	5.2	5.3	5.6	18.3	2.7	4.6	5.2	4.4	12.6
	1961	4.1	14.5	7.5	12	..	..	..	5.5	1.5	12.5
Italy	1959	7.7	9.9	7.9	10.1	7.1	14.7	8.7	5.6	2.1	16.6
	1960	6.9	36.9	10.8	14.9	-0.4	8.0	31.0	6.4	6.0	19.6
	1961	6.7	11	7.5	13	..	..	..	5.5	6	15
Netherlands . . .	1959	6.0	14.0	8.7	14.7	6.1	13.5	18.6	3.3	-1.3	11.6
	1960	8.1	17.0	11.3	10.0	-2.2	9.2	14.7	6.7	5.1	13.3
	1961	2.5	7.5	4.5	7.5	..	..	..	4.5	3	4
Norway	1959	3.9	4.1	4.0	-3.3	-1.4	-0.7	-4.9	5.1	0.8	9.2
	1960	6.1	10.8	7.7	1.7	1.9	6.1	-0.4	5.6	3.1	9.2
	1961 ^b	5.6	8.5	6.5	8.5	..	..	..	5.5	5.5	6.5
Sweden	1959	5.0	1.3	4.1	10.7	4.5	15.5	9.9	3.6	5.3	2.0
	1960	4.0	15.7	6.6	3.3	..	..	..	1.9	1.0	11.8
	1961	4.7	1	4	4	..	..	..	6	5	4
United Kingdom .	1959	3.6	7.7	4.4	7.3	14.0	7.5	5.1	4.2	2.1	3.1
	1960	4.6	11.8	6.1	9.9	13.4	11.4	7.7	3.7	2.2	5.2
	1961 ^a	2.0	2.5	2	7.5	5.5	9.5	7.5	2	7	2.5

Sources and methods: OEEC, *Statistical Bulletins — General Statistics* (July and September 1961); national statistics; and direct communications from governments.

NOTE. — Figures for 1961 are provisional and — except for gross national product — have been rounded to the nearest half unit.

^a Based on the first three quarters.

^b Including repairs and maintenance.

in industrial investment in Italy was 14 per cent, a moderate decline from the 18 per cent increase registered in 1960; and in the United Kingdom the increment in investment in manufacturing industry amounted to some 20 per cent for the second year in succession. Elsewhere there was greater diversity in

the rates of growth of investment during the year. Swift expansion in the early part of the year in Belgium, Luxembourg and the Netherlands was succeeded by a distinctly slacker rate of growth in the second half, largely in response to an autonomous weakening of demand in some branches. In Norway

TABLE 2
Authorizations for non-residential construction in selected countries
Index numbers, 1958 = 100

Country	Unit	1959	1960		1961	
			First half	Second half	First half	Second half
Belgium	Number of buildings	108	121	121	138	141 ^a
Finland	Cubic capacity	150	151	137	173	..
Western Germany . . .	Value	102	108	162	167	179 ^b
Italy	Cubic capacity	130	136	182	196	217 ^c
Netherlands	Value	108	118	124	128	130
Norway	Area	93	67	131	63	146 ^a
Portugal ^d	Area	87	89	86	92	..
Switzerland ^e	Number of buildings	99	128	139	148	160
United Kingdom ^f . . .	Area	128	240	149	119	91
United Kingdom ^g . . .	Value at constant prices	109	113	122	131	139 ^a

Sources : National statistics.

^a Three months.

^b Five months.

^c Four months.

^d Completed.

^e Industrial building.

^f Industrial building; Great Britain only.

^g Great Britain only; work done by contractors (seasonally adjusted).

and Denmark, however, where there was a parallel development, the declining tendency in the second half was reinforced at the end of the year by official measures of restraint.

Until fuller information becomes available it is difficult to ascertain how the generally considerable increases in fixed industrial investment have been distributed between additions to plant and the installation of new machinery and equipment. Changes in the amount of non-residential construction authorized provide a fairly useful guide to the general tendency, and some information of this kind is tabulated above (see Table 2). By and large, it seems that demand for factory building slackened during 1961, after having risen abruptly in several countries in 1960. This suggests that investment in factory installations has been a more dynamic component of total investment demand than outlays on new construction.

A further indication of the distribution of industrial investment (and, incidentally, of the relative strength of consumers' demand) is provided by data on the composition of industrial output. Although such data are as a rule a more useful guide to tendencies in the centrally planned economies than in market economies (see Chapter II), and despite the hazards attending their interpretation—for example, they may reflect export rather than domestic demand, and imported machinery may account for much of total investment—figures on the following page reveal some interesting tendencies.

First, output of investment goods grew appreciably faster in 1961 than that of consumers' goods in four countries—Belgium, Italy, western Germany and

Sweden; and in the first two of them the rate of increase accelerated during the year. In all the other countries shown, except Finland and the United Kingdom, the reverse was true: output of consumers' goods increased more quickly than that of capital goods. The experience of the United Kingdom was mixed—with consumers' goods yielding to investment goods in the second half. Comparison of the half-yearly figures shows, however, that in many countries the rate of growth of output of consumers' goods showed a gentler decline than that of capital goods during the year, and in one country—Norway—the gap between the rates widened in favour of consumers' goods in the latter part of the year. In any case, it is the returns for the second half of 1961 which are of greater interest in indicating the tendencies at work at the beginning of 1962. They show that in several countries production of investment goods was rising fairly steadily, but at a slower tempo than output of consumers' goods.

Given the scarcity of manpower in almost all the industrialized countries of western Europe, the increase in automation, and widely reported efforts to enhance competitiveness in anticipation of keener competition and expanding markets as the region moves closer to economic integration, one would expect, *a priori*, the emphasis of investment in 1961 to have been more on capital deepening (that is, additions to the stock of directly productive fixed capital per worker) than on those extensions of capacity described as capital widening. Although the above indications of tendencies in factory building and in the production of investment goods do not provide any firm evidence, they lend support to the impression that this was so.

Production of capital- and consumer-goods industries

Percentage changes from corresponding period of previous year

	1960		1961	
	First half	Second half	First half	Second half
Austria				
Capital goods	9	12	6	2 ^a
Consumers' goods	9	9	4	4 ^a
Belgium				
Capital goods	12	1	4	9 ^a
Consumers' goods	6	4	4	3 ^a
Finland				
Capital goods	22	19	9	5
Consumers' goods	12	9	7	7
France				
Capital goods	4	3	2	3 ^b
Consumers' goods ^c	9	5	5	5 ^b
Western Germany				
Capital goods	11	11	13	7
Consumers' goods	12	8	8	4
Italy				
Capital goods	13	16	11	17 ^b
Consumers' goods	11	6	3	1 ^b
Netherlands				
Capital goods	29	15	1	3 [*]
Consumers' goods	8	5	5	2 [*]
Norway				
Capital goods	9	7	7	6
Consumers' goods	9	8	8	11
Sweden				
Capital goods	8	8	7	4
Consumers' goods	7	2	2	1
United Kingdom				
Capital goods	11	2	—	2 ^b
Consumers' goods	8	5	2	1 ^b

Sources : National statistics.

NOTE. — There are some differences among countries in the allocation of industrial branches to the two sectors distinguished in the table. For Austria, Belgium, Finland and western Germany capital-goods industries comprise machinery and some transport equipment, as well as certain metal goods and electro-technical products. For France, Italy, the Netherlands and the United Kingdom, this category comprises the total metal-using industry (including motor-cars). The least satisfactory allocation is that for Norway and Sweden, where the capital-goods industries include building materials and some intermediate products.

^a Four months. ^b Five months. ^c Excluding food.

Stocks

Information on stock movements is as usual exiguous, and the importance of this element of investment last year consequently difficult to assess. In general, it seems that during 1961 the rate of stock building in western Europe was reduced — to some extent as an accompaniment of the slackening growth of industrial output in western Europe as a whole. At any rate it is fairly certain that investment in stocks brought little to the growth of total investment outlays in 1961. The United Kingdom provides one example of the tendency: stock-building was a very important element in the overall growth of demand in Britain in 1960; but the rate of stock accumulation in 1961 fell by one-half, and in the first three quarters outlays on stocks represented only 9 per cent of total invest-

ment (in constant prices), compared with 16 per cent in the corresponding period of 1960. In western Germany there was a clear tendency to run down stocks — mainly of steel, but also of some consumers' durable goods; the volume of investment in stocks as a percentage of total investment fell from nearly 12 per cent in 1960 to 7.6 per cent in 1961. In Sweden and the Netherlands, although stocks continued to rise, the rate of accumulation dropped by one-half and one-fifth respectively. In sum, it appears that, apart from some Scandinavian countries, stock movements in 1961 had little expansionary effect on aggregate demand during the year.

Consumption

To judge by the aggregate data on the use of national resources during 1961 shown in Table 1, the rate of growth of total consumption seems, by and large, to have changed little from 1960. In most of the industrial countries of western Europe there were slight increases or decreases within the range of a 5-7 per cent annual increment. Private expenditure on consumption in Sweden, however, rose very steeply — by 6 per cent, compared with 2 per cent in 1960; ⁹ and the opposite occurred in the United Kingdom, where the rate of increase of private consumption fell from 3.7 per cent to 1.7 per cent.

British and Swedish experience is also untypical in another respect: public consumption rose about three times as fast in 1961 as in the preceding year; and in the United Kingdom alone much faster than private consumption. In Belgium, France and Norway public consumption also grew faster than in 1960, but was less dynamic than private spending. Only western Germany and the Netherlands had a slower increase — in the latter the rate was halved — of public consumption than in 1960. Nevertheless the annual aggregate data conceal the most significant development of consumption during the year — namely the general tendency for private consumers' spending to accelerate in the latter months of 1961.

The sources of the buoyancy of private consumption are not far to seek. Since the additions to total employment during the year were generally inconsiderable (though greater than expected, as is shown in the following section), higher incomes, associated in several countries with a declining propensity to save, provided the wherewithal for increased spending. Only the United Kingdom, as observed above, saw a steep fall in the growth of consumers' expenditure. This was the result both of the extensive measures of restraint — including higher indirect taxes — intro-

⁹ The true difference between the rates may have been smaller, for the introduction of a turnover tax in January 1960, and the increase in the tax on 1 January 1962, provoked exceptional waves of spending at the end of 1959 and 1961.

TABLE 3
Indicators of private consumption
Index numbers of volume or (in italics) value, 1958 = 100

	1959				1960				1961			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Austria												
Retail sales	92	97	102	134	94	105	108	143	107	109	120	129 ^a
<i>of which</i> : Clothing	83	96	89	154	81	105	93	162	93	103	100	139 ^a
Durable goods	81	98	108	147	89	111	121	168	108	116	136	156 ^a
Denmark												
Retail sales	98	104	105	129	103	114	116	138	112	122	130	136 ^b
<i>of which</i> : Clothing	95	106	98	135	98	115	108	144	108	124	126	140 ^b
Hardware and electrical appliances	90	112	114	136	99	126	126	152	113	138	149	..
Finland												
Retail sales	90	108	105	120	96	115	111	130	104	126	124	143
<i>of which</i> : Textiles and clothing	81	113	88	141	86	127	101	164	99	145	114	182
Household goods	82	124	129	133	96	144	151	162	74	118	117	202
France												
Retail sales	97	99	102	119	99	106	108	127	108	111	106 ^c	..
Western Germany												
Private consumption	97	103	103	118	102	111	112	129	112	117	120	..
Retail sales	93	99	97	126	96	108	106	139	107	114	113	147
<i>of which</i> : Clothing	91	98	88	139	88	109	97	153	102	111	105	166
Durable goods	89	95	104	139	95	102	113	146	103	107	117	153
Netherlands												
Private consumption	98	103	103	109	99	111	111	119	109	115	115	119 ^a
<i>of which</i> : Durable goods	94	110	104	117	99	127	122	134	113	129	124	140 ^a
Norway												
Retail sales	85	105	103	122	93	111	113	131	101	118	119	118 ^a
<i>of which</i> : Textiles and clothing	84	109	95	141	91	112	105	149	95	114	111	124 ^a
Electrical appliances	81	95	91	144	100	109	106	161	106	129	117	155 ^a
Sweden												
Retail sales	90	103	98	127	83	103	99	123	95	107	103	..
<i>of which</i> : Clothing	82	109	80	143	73	107	82	141	89	116	87	..
Household goods	98	82	94	182	79	89	111	167	113	100	116	..
Switzerland												
Retail sales	95	102	101	128	101	111	109	138	112	118	118	149
<i>of which</i> : Textiles and clothing	93	102	95	138	96	112	106	149	108	115	109	146 ^a
United Kingdom ^d												
Private consumption	102	105	104	106	108	109	108	108	110	111	110	109
<i>of which</i> : Clothing	101	105	102	109	108	112	112	114	113	111	114	115
Durable goods	108	124	121	124	136	133	119	96	118	128	117	95

Sources : National statistics.

^a October-November.^b October.^c July-August.^d Seasonally adjusted.

duced in July (for in the twelve preceding months the volume of consumers' outlays went up by nearly 3 per cent) and of tighter hire-purchase terms in the second half of the year.¹⁰ A sidelight is thrown on rising disposable income as the main source of higher consumers' spending in 1961 by the increase in the share of wages and salaries in total national income

¹⁰ The slower growth of wage earnings during the wage "pause" may also have contributed to the fall by 2 per cent in consumers' spending in the latter half of the year; see section 4 below.

during the year in western Germany, the Netherlands and the United Kingdom — to 62.3 per cent (from 60.6 per cent in 1960), 58.7 per cent (against 56.8), and to 70.5 per cent (against 68.9) respectively.¹¹ Similarly, the rapid rise in wages and salaries in Sweden explains virtually all of the increase in the volume of

¹¹ The figures for the United Kingdom are based on returns for the first three quarters of each year, and are expressed as percentages of gross domestic product. Employers' social security contributions are included in the data for both the United Kingdom and the Netherlands.

consumers' expenditure, the value, *inter alia*, of transfers being almost unchanged.

Tendencies during 1961 in the distribution of private consumption outlays among traditional goods (foodstuffs, textiles, etc.), durable goods and diverse services are not easy to distinguish. Table 3 assembles some information on the subject. Generally, retail sales of consumers' durable goods (especially household electrical appliances) rose more briskly than those of textiles and faster than the total index. But in western Germany sales of clothing and other consumers' goods were more dynamic than those of durable goods. Sweden was in almost the same position, inasmuch as the rates of increase for the two categories of commodity drew closer together. And in Denmark, Switzerland and the United Kingdom similar tendencies for consumers' spending to switch from the heavier durable goods to clothing, footwear, food and services were gaining strength in 1961, while the astounding increase from year to year in foreign travel continues unabated. Indeed, as real incomes rise, such a switch in spending (incorporating, as it does, an element of national rather than local emulation) seems quite natural; the more so, in fact, given the possible emergence of a replacement cycle in durable household appliances. It is not inconceivable that some of the wealthiest western European economies are entering a phase of temporary market saturation for the more familiar durable goods.¹² Demand for motor-cars is the obvious exception; for it seems unlikely to be satiated before congestion of the roads results in a steeply diminishing scale of utility of car ownership. By and large, however, demand for motor-cars in western Europe was slacker in 1961 than a year earlier. New registrations rose fairly fast in western Germany, Italy and Switzerland — though more slowly than in 1960 — and car imports into Norway were much greater; but elsewhere the rate of increase was decidedly sluggish compared with that of preceding years.

Demand forces in 1962

So early in the year any forecast of the prospective development of demand can be based on only three indications: the reported investment intentions of the private and public sectors for 1962 (sometimes published in national budgets — see section 4 (b)); the movement of the stock and flow of industrial orders; and, finally, the main observable tendencies towards change in the closing months of last year. The possible evolution of overseas export demand is not considered, since the prospects for trade are dealt with in sec-

tion 3; all that need be said here is that, on balance, overseas export demand is likely to expand more strongly than in 1961.

The volume of gross fixed capital formation is estimated to increase in 1962 by 6.5 per cent in France, 7 per cent in the Netherlands and 3 per cent in western Germany. Only in the last-named country does this represent a sharply declining rate — by almost two-thirds; in France and the Netherlands it means a slight slow-down. Swedish plans for 1962, like those in western Germany, envisage a steep fall in the rate of increase of investment: industrial outlays on construction are expected to fall by 5 per cent (against an increase of 13 per cent in 1961) and investment in machinery is anticipated to rise by only 1 per cent, compared with 13 per cent in 1961. Belgium, Denmark, Italy and the United Kingdom are also likely to see a slower growth of total fixed investment in 1962 — though it is impossible yet to say by how much. However, British manufacturing industry expects to maintain its investment outlays at last year's rate. In general, then, the tendency observable in the latter half of 1961 will probably continue in 1962: investment will continue to rise fairly fast, but at a slackening pace. Consideration of changes in industrial order-books, and inquiries into business expectations, while of doubtful reliability as guides to future developments and abounding in difficulties of interpretation, seem to support the above conclusion. Stocks of orders in the metal-using industries of Belgium and western Germany were reported to be rather smaller at the end of 1961 than a year earlier, but the fall has apparently not given rise to pessimism. The flow of incoming orders has also diminished in western Germany, but has increased in Belgium and changed little in the United Kingdom. An Italian survey of businessmen's expectations reported that in January 1962 the percentage of "optimists" had risen to 71 per cent from 54 per cent a year earlier.

All the signs point to a continuation — and perhaps strengthening — in 1962 of the vigorous growth of consumption which marked the closing months of 1961. Its rate of expansion will almost certainly surpass those of investment and export demand, thus ensuring that consumption will be the most dynamic element of total demand and hence the major determinant of the growth of overall output. Public consumption will clearly rise quite fast in many countries, often in association with increased defence expenditures. Although a steady increase in demand for consumers' durable goods is not assured, it is none the less likely to increase as an accompaniment of the expected rise in earned incomes in the course of 1962; and there is little to suggest that mounting expenditures on traditional commodities and services, in particular, will slacken during the year.

¹² The number of licences issued for television receivers in western Germany in 1961 was no higher than in 1960, and fewer refrigerators were sold. The symptoms, if not conclusive, seem most evident in western Germany, Sweden and the United Kingdom.

2. INDUSTRIAL PRODUCTION AND EMPLOYMENT

The general development

In western Europe as a whole industrial production rose in 1961 by about 4.5 per cent, against 9 per cent in the previous year.¹³ The slackening in the growth of output was much more marked in some countries than in others. Of the six countries in which output increased by 7 per cent or more, expansion in Norway was nearly as fast as, and in Spain and Ireland, even faster than, in the previous year — an achievement made possible in the last two countries by the fuller use of resources in economies that still operate below full employment levels.¹⁴ Output rose by rather more than the western European average — by 5 to 7 per cent — in Finland, France, Greece and western Germany (and in Italy by as much as 9 per cent); but in all these countries this meant slower progress than in the preceding year. Belgium, and even more the Netherlands and the United Kingdom, saw their production rise less than both the average and their own 1960 rates.

The growth of industrial output

*Percentage increases from
corresponding period of previous year*

	1960	1961
Ireland	6.8	11.8 ^a
Spain	5.6	11.1
Norway	7.7	7.1
Italy	15.5	9.5
Finland	13.8	7.1
Greece	9.8	5.6 ^b
Western Germany	10.7	6.2
France	11.4	5.7
Austria	10.5	4.6
Sweden	6.3	3.0
Belgium ^c	6.4	3.0 ^b
Netherlands	12.9	1.3
United Kingdom	7.1	0.5
Yugoslavia	15.3	7.2

Sources: National statistics.

^a January-September.

^b January-November.

^c Index for 1961 affected by strikes.

After fairly rapid expansion until the spring of 1961, output in some of the industrialized countries has tended to level off, allowing for seasonal movements, although there may have been a slight recovery

¹³ If the United Kingdom is excluded, the corresponding increases are nearly 6 per cent and 10 per cent respectively. Industrial production in the EEC countries went up by 6 per cent in 1961, against 12 per cent in 1960.

¹⁴ In Norway, however, the main source of the expansion was the maturing of large investment projects.

in the fourth quarter (see Table 4).¹⁵ The weakening tempo of expansion has been most noticeable in western Germany and the Netherlands, but the growth of production slowed down during the year in almost all countries, except Italy and Norway. In the United Kingdom, however, there was a short-lived revival until the summer, following virtual stability of the index during 1960.

There is every ground for believing that this lull in the progress of western European industrial production is no more than temporary. Indeed, for all countries in which they are made, official and independent forecasts concur in anticipating a resumed expansion during 1962; and some straws in the wind could already be seen in the closing months of 1961. The pause in the summer and autumn of 1961 appears to have been due to both supply and demand factors, and to their interaction. Demand for some basic materials slackened — partly because of reduced stock-building; and shortages of labour — or, in some instances, capacity — hindered expansion. The latter was most clearly a drawback in the Netherlands, where the reduction by 3 per cent in hours worked was not compensated by higher productivity; and in at least some west German industrial branches the experience has been similar, for there have been complaints that labour is now being hoarded as the manpower shortage intensifies. How far demand, rather than supply, has been the factor moderating, or temporarily halting, the growth of output in some countries is uncertain. In western Germany, for example, opinion on the subject is divided.¹⁶ But it is plain that in none of the industrial countries has the slower growth of demand reduced overall activity below the level of full employment, even though output in some industries or countries has been running below "capacity".

¹⁵ Too much should not be read into small quarterly changes in the index numbers shown in the table, since the adjustment for seasonal variations is inevitably rough. Quarterly data for gross national product are available for only a few countries and show either a slowing down of or, in western Germany, a halt to overall expansion in the course of 1961. In the United Kingdom national output was lower in the second half of the year than in the first half.

¹⁶ Cf. the joint analysis made by five west German research institutes (*The Economic Situation in the World and in Western Germany at the end of 1961*, Essen, December 1961). The majority view is that developments since the spring reflect a natural readjustment to the previous boom and an easing of excessive strains on capacity and manpower (thanks partly to revaluation). This, broadly, is also the view of the Federal Bank (cf. *Monthly Report of the Deutsche Bundesbank*, January 1962). The minority opinion — put forward by the Deutsches Institut für Wirtschaftsforschung (Berlin) — is that entrepreneurial expectations were less optimistic than in 1959-1960 and that the consequently slower growth of investment demand first affected output in the capital-goods and basic-materials industries.

TABLE 4

Index numbers of industrial production in selected western European countries and the United States

1958 = 100, seasonally adjusted

	1959	1960	1961	1959				1960				1961			
				I	II	III	IV	I	II	III	IV	I	II	III	IV
EEC	105	118	125	102	104	107	112	115	118	119	122	124	124	124	129
Belgium	105	111	115 *	100	103	106	110	111	112	113	110 ^a	108 ^a	119	117	120 ^b
France	103	116	122	97	102	104	111	110	113	116	119	118	119	121	128
Western Germany	107	119	126	103	105	108	113	116	118	118	122	128	126	122	127
Italy	111	128	140	107	107	110	119	124	127	129	131	136	137	140	147
Netherlands . . .	109	123	125	105	108	110	113	120	126	122	126	127	125	121	125
EFTA	106	113	115	101	104	106	110	112	113	114	114	115	116	116	115
Austria	103	112	118	101	101	103	106	109	110	112	116	117	119	117	118
Denmark ^c . . .	108	114	..	102	107	111	114	114	113	114	115	..	..	..	..
Norway	106	114	123	103	106	107	109	111	115	115	117	120	122	125	126
Sweden	104	111	116	102	102	103	108	109	109	112	114	116	115	115	117
United Kingdom .	107	114	115	101	104	107	111	113	114	114	114	113	115	116	114
Other countries															
Finland	107	120	129	97	108	110	115	117	119	120	124	126	128	129	132
Ireland	110	118	..	103	110	112	113	115	116	118	119	124	128	131	..
Yugoslavia . . .	113	131	140	105	111	115	122	123	131	130	138	135	140	140	145
Greece	101	110	117 *	101	100	100	102	105	109	112	113	115	117	119	116 ^b
United States . .	113	116	117	110	116	112	112	118	117	116	112	111	116	120	123

Sources : OECD, *Statistical Bulletins — General Statistics*; and national statistics.^a Index affected by strikes.^b October-November.^c Publication of this index ceased in January 1961, pending revision of the series.*Output in selected industries*

As can be seen from Charts 1 and 2, the slower growth of output affected most industries, to a greater or lesser degree. In particular, the rise in textiles output in western Europe — of the order of 5-6 per cent annually in the two years following the drastic fall in 1958 — was negligible in 1961. The chemicals industry was perhaps the least affected, although the growth of capacity seems lately to have exceeded that of demand in some branches and output generally rose less than in 1960, except in Norway.¹⁷

In contrast, production of non-metallic minerals — mainly building materials — has risen in the majority of countries as fast as in the previous year, or faster than in most other industries (especially in Austria, France, western Germany and Norway), owing to the continuing increase in construction both of dwellings and of non-residential buildings.

Within the major industries, however, the experience of the various branches has been very diverse. Such has been the pattern of demand that, in the engineering industry, for example, production of machinery has fared much better than that of transport equipment. In all countries 1960 was a better

year for motor vehicles than 1961, and output of cars actually fell in France and the United Kingdom (respectively by one-tenth and one-fourth). Car imports into France tripled in 1961, following the increase in quotas within the European Economic Community.¹⁸ Production in all countries was also affected by weaker exports, to the United States in particular; but export demand began to recover towards the end of the year,¹⁹ and with the improvement in both export and domestic demand, the prospects for western European car producers are rather brighter than a year ago.²⁰ In shipbuilding, on the other hand, the position has changed little in the past year²¹ although, judging by the tonnage of ships laid down, the total tonnage under construction in western European shipyards during 1962 should be rather greater than in the previous year.

¹⁷ Imports in 1961 were equivalent to 9 per cent of domestic output.

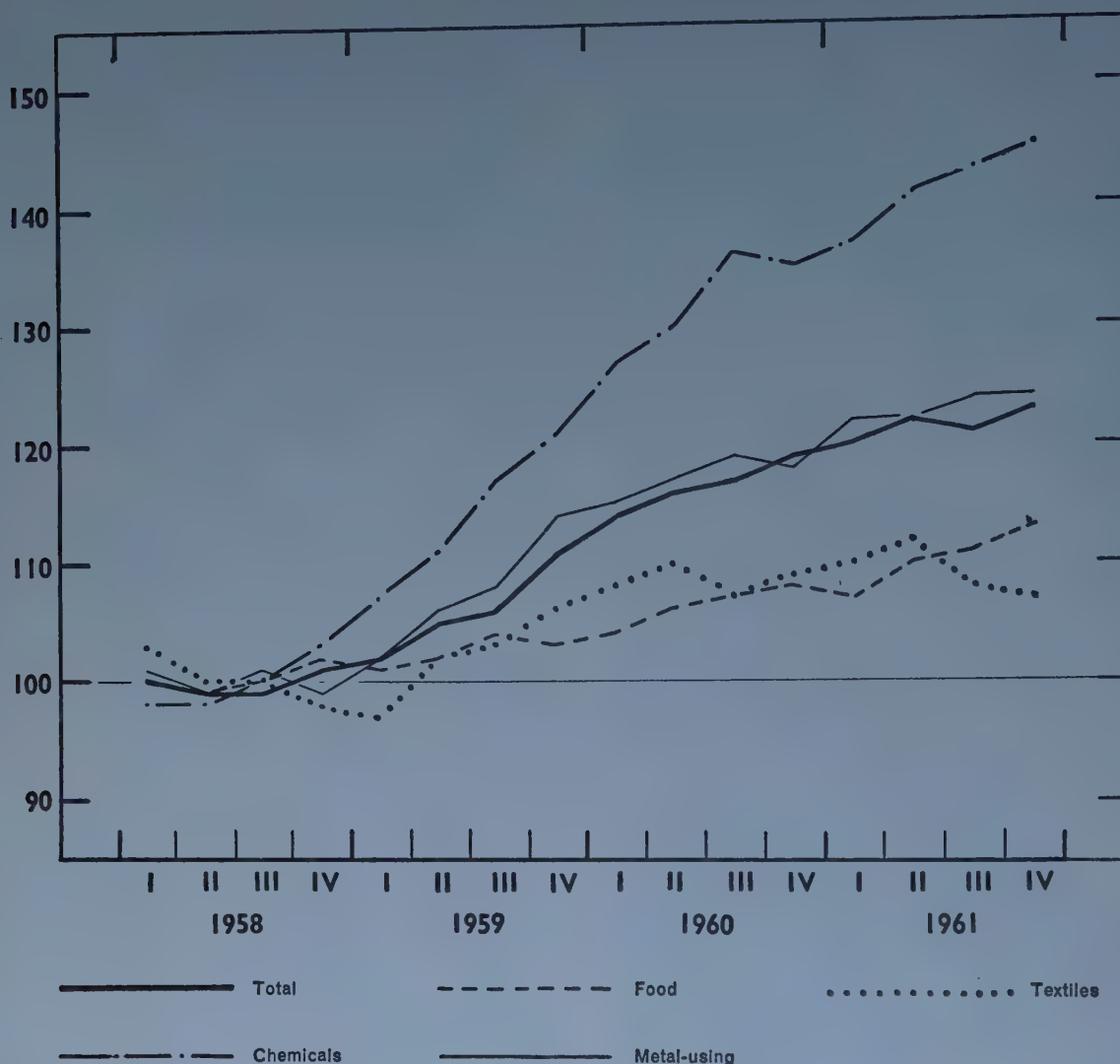
¹⁸ Production of commercial vehicles rose in all the major producing countries except France, where there was a fall of 7 per cent.

²⁰ British manufacturers believe their exports will increase by 22 per cent in 1962 and home-market sales by 9 per cent. If continued credit restriction should vitiate this forecast for domestic sales, total output would remain at nearly the same level as in 1961. (See *National Institute Economic Review*, February 1962, p. 4.)

²¹ See the SURVEY for 1960, Chapter I, section 3.

¹⁷ The increase of 30 per cent in Norway's production was due to the commissioning of a petroleum refinery.

CHART 1

Industrial production by sectors in western Europe,^a 1958-1961*Index numbers of volume (1958 = 100) adjusted for seasonal variations*Sources: OECD, *Statistical Bulletins — General Statistics*; and national statistics.^a OECD member countries, excluding Canada and North America.

Output of cotton textiles generally rose less than that of other textiles. Within the chemicals industry, the petro-chemicals branch increased its output more than others, but even so the increment in production does not seem in most countries to have exceeded 15-20 per cent, which is well below the average annual rate of 30-40 per cent during the past decade.

Output and demand in the basic-materials industries

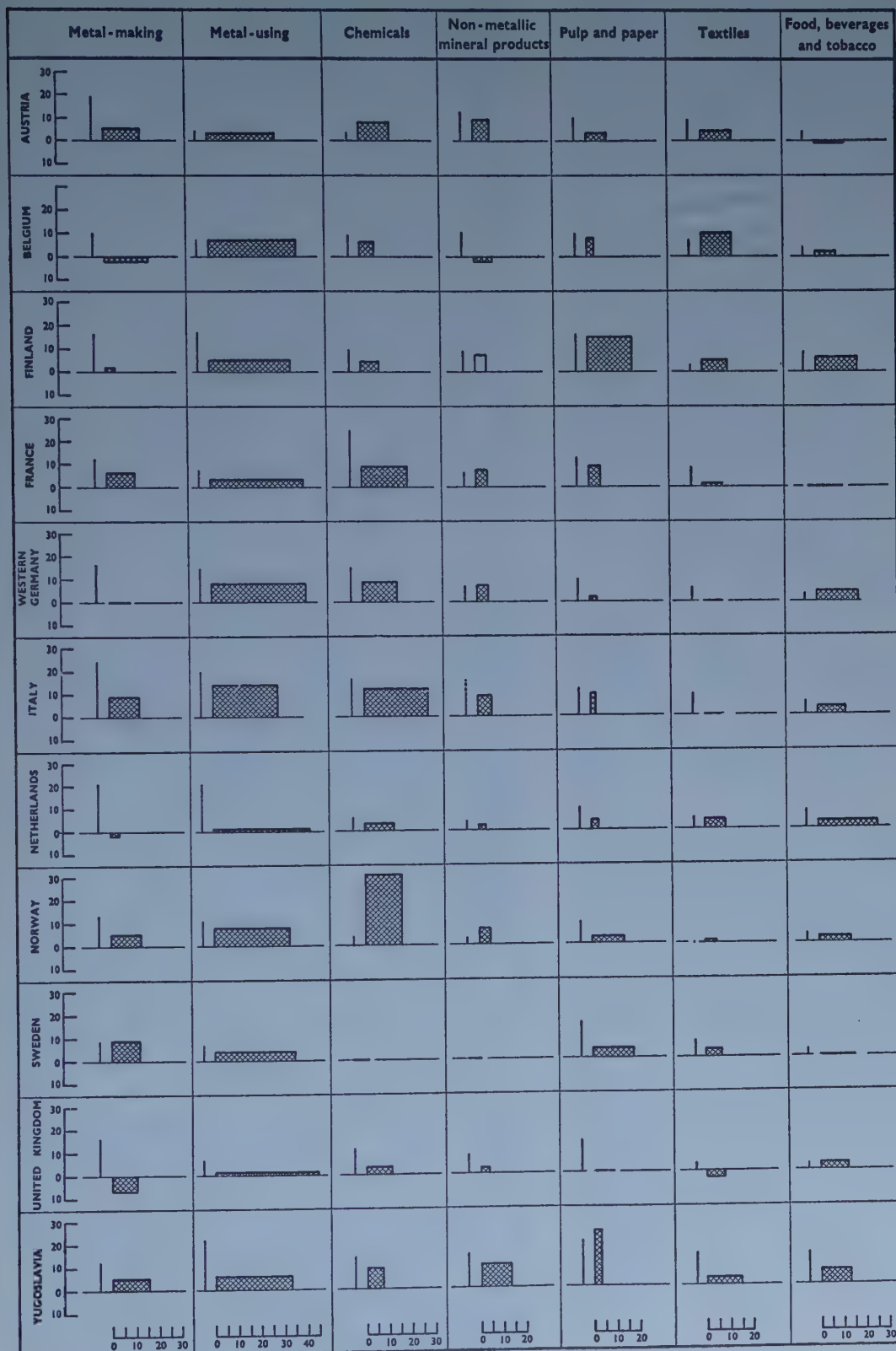
In at least three branches — steel, forestry products, and coal — the output of which is destined for other industries, production increased relatively little, or even fell, in 1961, on account of either weakening

demand in the consuming industries or stock movements.

Steel output diminished in 1961 in all major producing countries of western Europe except Italy and France, where it expanded by some 10 per cent and 2 per cent respectively. In the United Kingdom the fall was particularly steep — as much as 9 per cent — and in western Germany it amounted to 2 per cent. Although consumption of steel was affected by reduced output of motor vehicles and continued recession in shipbuilding, total consumption must have risen (or at least fell less than output) owing to increased demand from sectors producing other capital goods,

CHART 2

Industrial production by branches in selected western European countries, 1960 and 1961

Percentage changes from previous year

1960

1961

Sources: National statistics.

NOTE. — For 1961 the bases of the blocks represent the percentage share in 1960 of each branch in the total production of the seven branches shown.

and from the construction industry. Direct statistical confirmation, however, is available only for the United Kingdom; but the sustained, though slower, growth of output in the metal-using industries as a whole indicates the same development in other countries.²²

The fall in steel output has thus been associated with the running down of consumers' and merchants' stocks — in most countries from about the autumn of 1961, but in the United Kingdom rather earlier — following high rates of accumulation during most of 1960.²³ Price expectations seem to have been at the root of this reversal of stock movements.²⁴ During 1960 and early in 1961 consumers and merchants added to stocks, less because they feared a shortage of steel in conditions of firm demand than because they thought that steel prices might rise, even though spare capacity was already in prospect. With rising capacity and slower growth of steel consumption, the supply position for most types of steel eased during the course of 1961 and price expectations were not fulfilled;²⁵ and the combination of these two factors caused a diminishing flow of orders.²⁶ In these circumstances, individual producers attempted to limit the effect on output by cutting export prices, since domestic prices in both the European Coal and Steel Community and the United Kingdom are largely insulated from short-term market fluctuations. This development led the Brussels Export Convention to set in December a lower limit to such competitive price reductions,²⁷ and resulted in voluntary limitation of exports in some countries. Even so, production schedules were revised, the degree of capacity utilization fell quite sharply, and short-time working was introduced. Simultaneously the opportunity was taken to close down marginal high-cost plant and scrap old equipment.

²² The index of production in the metal-using industries in western Germany rose by about 4 per cent, against 15 per cent in 1960. The average increase for western European countries taken together was also of 4 per cent.

²³ The swing in stocks in the United Kingdom between 1960 and 1961 of about 2 million tons was approximately equal to the fall in output. Information on consumers' and merchants' stocks other than in the United Kingdom is limited, but it appears that in western Germany the peak of stock accumulation was reached in the autumn of 1961 (see Rheinisch-Westfälisches Institut für Wirtschaftsforschung, *Konjunkturberichte*, Essen, December 1961).

²⁴ In addition, fluctuations in steel stocks tend to be amplified by the fact that a considerable portion of all steel consumed is delivered via steel merchants, and thus may accentuate fluctuations in demand.

²⁵ This is not quite true of the United Kingdom, where domestic prices were raised on an average by 2½ per cent in February 1962; but by that time the run-down of stocks had already reached major proportions and the industry was working at about one-quarter below capacity.

²⁶ The degree to which different products were affected varied from country to country, but in general demand for sheets and hot-rolled strip products underwent the greatest setback.

²⁷ Press reports claim that these minimum prices were not always respected.

It is hardly likely that the present situation — the outcome of a quite sudden increase in steel-making and finishing capacity at the same time as demand temporarily weakened — will last for long. But the stock movement may not work itself out before the present year is well advanced, particularly since consumers, with the prospect of abundant supplies — in contrast with previous periods of strong demand for steel — may revise their views on normal working levels of steel stocks.²⁸ On the other hand, the commissioning of new plant, as investment projects mature, may cause a faster growth of steel capacity than of demand for some time and thus affect current investment decisions in the industry.²⁹

Developments in the *pulp industry* were in many ways similar to those in steel. Stock accumulation in importing countries in 1960 was succeeded by stock reduction in the following year, export prices fell, and the level of production was unchanged. For the first time since 1952, the expansion of exports of chemical pulp from the principal western European producing countries was checked,³⁰ despite the continued rapid rise of paper consumption in western Europe and lower export prices. A further factor depressing imports of chemical pulp from western European suppliers was strong price competition from North American producers during 1960 and early 1961, favoured both by low freight rates and by surplus output in the region, as a result of weaker domestic demand in the United States. Swedish producers in particular had difficulty in quoting competitive prices.

The major factor leading to the reversal of stock accumulation in 1961 was — as in the steel industry — the exceptionally rapid expansion of capacity as a result of past investment, particularly in Sweden and Finland, and the prospect of further substantial additions. Between 1959 and 1965, production capacity in the chemical-pulp industries in Finland, Norway and Sweden is scheduled to increase by more than 50 per cent. Faced with this prospect, importers reduced current imports to a working minimum in anticipation of a fall in prices. The initial consequence during the

²⁸ There were already signs in January that the diminishing inflow of new orders and the slackening growth of output may have been arrested.

²⁹ Investment projects registered with the High Authority of the ECSC were already coming in more slowly in 1961. The concept of capacity in the steel industry is particularly elastic, and the extent of any future surplus will depend partly on the rate of withdrawal of uneconomic plant. This is a matter at issue in the United Kingdom, for example, between the industry on the one hand and the Iron and Steel Board on the other, in respect of the scale of the reduction in planned capacity to meet estimated future demand. (See Iron and Steel Board — *Development in the Iron and Steel Industry, Special Report, 1961*, HMSO, April 1961).

³⁰ Provisional data indicate that the volume of exports from these countries — Austria, Finland, Norway and Sweden — was some 5 per cent below the (record) 1960 level and only fractionally above that of 1959. Output in these countries was about the same as in 1960.

autumn of 1961 was that stocks in exporting countries rose, while export prices quoted were reduced by about 7 per cent. By the end of the year, however, the market situation had so weakened that Scandinavian producers, in order to support the lower price level, collectively decided to cut production during the period December 1961 to July 1962 by 1 million tons — equivalent to about 15 per cent of present annual capacity.

Though these producers fear that it will be some years before demand catches up with capacity, experience suggests that such imbalances in the pulp market invariably disappear sooner than expected. Moreover, as the recovery in North America proceeds, the incentive to divert supplies to the marginal European market will be smaller. Nor is there any likelihood of appreciably larger exports from eastern Europe in the near future.³¹ Moreover, through higher pulp sales to domestic paper manufacturers, the substitution of exports of paper and paper board for exports of chemical pulp — which has progressively been taking place throughout the postwar period in western European exporting countries — may be expected partly to offset the prospective slower rise of pulp exports than of capacity.³²

During 1961 the *coal industry* continued the process of adjustment that has gone on for several years — endeavouring to raise productivity and lower costs in the long run, and to bring supply and demand into better balance in the short run, after large increases in pithead stocks earlier.³³ Total demand in western Europe remained very close to the 1960 level, falls in industrial consumption (where other fuels compete directly) being offset by rises in that of power stations, so that any further reduction of stocks implied a corresponding cut in output also. This movement was carried farthest in the United Kingdom, where pithead stocks went down by 7.8 million tons and production by 3.5 million tons, or nearly 4 per cent; but output was also reduced to varying degrees in most ECSC countries, and notably in Belgium, where uneconomic pits were closed down and stocks cut back farther.³⁴ However, imports of coal into western Germany in 1961 were maintained at the previous year's level, as was production; and

a considerable increase in productivity offset the closure of marginal pits. Since total consumption of coal fell, pithead stocks in that country increased by 1 million tons. While most countries have thus gone some way towards overcoming the short-term problem of excessive stocks, important progress has also been made towards the longer-term objective of raising labour productivity by means of both increased mechanization and rationalization leading to reductions in the labour force.³⁵ There have even been reports of scarcity of mining labour in several countries.

Capacity utilization

As noted above, in 1961 there were still some sectors in which the pressure of demand continued to be very firm and expansion of output was limited by shortage of capacity, although the situation eased during the year. It is possible, however, and some recent indications support the hypothesis, that in some industries the existence of spare capacity is due to labour scarcity. Such a situation can readily arise at a time when demand patterns are changing and general shortage of manpower hampers movement from one industry to another. The evidence is too sparse to yield firm conclusions, but points to a problem which may grow in importance in the years to come.

Special inquiries into the degree of utilization undertaken in some countries usually do not clearly distinguish spare capacity caused by weak demand from that due to other causes. But even in the United Kingdom — the clearest case of demand-induced spare capacity — there were in 1961 some branches in which capacity limited output and others where labour was the bottleneck, on account of its immobility.³⁶ Half of the engineering firms consulted

³⁵ The following figures on output per man-shift (underground) demonstrate the continued rise in labour productivity:

	Tons per man-shift ^a				Percentage increase 1961/1960
	1958	1959	1960	1961	
Belgium	1.15	1.27	1.43	1.54	7
France	1.68	1.72	1.80	1.88	4
Western Germany ^b . . .	1.64	1.85	2.06	2.21	7
Saar	1.80	1.85			
Netherlands	1.52	1.61	1.79	2.05 ^c	15
United Kingdom	1.64	1.72	1.81	1.88	4

^a For Belgium and the United Kingdom, shifts worked by "under-officials" are taken into account.

^b As from May 1959 the length of shift was increased by half an hour.

^c Average of eleven months.

³¹ The present shortage of paper in the Soviet Union is reflected both in a new decree issued in January 1962 to raise investment and output in the pulp and paper industries and the decision to raise prices.

³² Between 1950 and 1960, exports of chemical pulp from these countries increased by about 50 per cent and exports of paper and paper board (excluding newsprint) by 135 per cent.

³³ See the SURVEY for 1960, Chapter I, section 3.

³⁴ On the basis of its forecast of future demand the National Coal Board expects to bring stocks down to normal working levels within a year. The ECSC High Authority has extended for another year (i.e. until the end of 1962) its permission for Belgium to limit imports from other Community members.

³⁶ The inquiry into investment in the mechanical engineering industries by the National Institute of Economic and Social Research (see its *Economic Review*, February 1962) indicated that at the end of 1961 the average degree of capacity utilization remained, as in the previous two years, in the neighbourhood of 80-85 per cent, but that a greater proportion of firms than a year earlier had "moderate" spare capacity (15 to 25 per cent) and fewer firms were in the extreme positions of having either far

reported that higher output was limited not by demand but by shortage of labour, particularly skilled labour; hence only a minority of these firms were able to make full use of capacity. In the motor-car industry full capacity utilization would require an increase in employment of as much as 15 per cent, as well as longer working hours — an increase larger than that achieved between 1959 and 1960, when output rose to a record level.

In western Germany the fall in the degree of capacity utilization in 1961 in some branches has also been ascribed to labour shortage rather than demand factors.³⁷ Given the emergence of some spare capacity in many industries, it seems at first sight surprising that the proportion of firms in western Germany claiming the enlargement of capacity, rather than rationalization, as the main aim of the investment planned for 1962 was much greater than in the preceding two years, particularly in the investment-goods industries.³⁸ This apparent contradiction is explained by the fact that in the past two years enterprises have generally been producing at full capacity and investment in 1962 is therefore intended to create capacity reserves. Moreover, the prospect of manpower shortage encourages mechanization, and this in turn calls for higher output of capital goods. This circumstance goes far in explaining the planned increase in the capacity of the investment-goods industries for 1962. It is true that capital widening (in both investment and consumer-goods industries) requires additional manpower; but increased supplies of investment goods always have the effect of reducing the manpower requirements per unit of production in the branches utilizing new equipment.

In Austria, France and Italy, by contrast, the degree of capacity utilization increased between 1960 and 1961. In Austria, an inquiry carried out at the end of November 1961 revealed that spare capacity existed mainly in small firms or structurally weak branches of industry; and in general shortage of manpower rather than of capacity appears to have restrained the expansion of output.³⁹ Some confirmation of this is perhaps provided by the fact that capacity was enlarged in 1961 at about the same rate (6 per cent) as industrial output increased. This

too little or far too much. The February 1962 inquiry of the Federation of British Industries reported that the proportion of all industrial firms working below capacity had risen from 45 to 59 per cent between the end of 1960 and the end of 1961.

³⁷ See *Wochenbericht*, Deutsches Institut für Wirtschaftsforschung, 15 December 1961.

³⁸ See IFO, *Schnelldienst*, 19 January 1962. The proportion in 1960 and 1961 was 31 per cent (weighted according to their turnover) and 42 per cent in 1962. Rationalization as the main investment objective was reported by 55 per cent of the firms for 1960 and 1961 and 45 per cent for 1962.

³⁹ See *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*, December 1961.

suggests that entrepreneurs, in reporting a general narrowing of capacity margins, may have had in mind not only plant capacity itself, but also the manpower required for its utilization.

In France, the proportion of industrial enterprises (weighted according to turnover) reporting in November 1961 that they were not able to produce more with their present means of production was slightly higher than a year earlier, but had none the less declined in the second half of 1961 as a result of large-scale investments, notably by large enterprises.⁴⁰ While fewer enterprises in November than in June reported that they were hampered by capacity limitations, the share of firms hampered by labour shortages had increased. Hence in France, as in Austria, labour bottlenecks have become more important than shortage of physical capacity in limiting industrial expansion.⁴¹

Employment and labour productivity

As will be seen below, the increment in total employment in 1961 was greater than the average for the fifties in most countries. This is also true of industrial employment: in 1961 it went up by 2 per cent or more in all countries for which figures are available, the principal exceptions being France and the United Kingdom, where it rose by about 1 per cent (see Table 11) and Denmark.⁴² For most countries this rate was above the average of the fifties, but below that recorded in 1960, when the unemployed could be absorbed in the early stages of economic re-expansion. Industrial employment grew in 1961 faster than total employment because of the continued exodus from agriculture, but in some countries employment in services continued to grow faster than in industry.

Once again, there were major shifts of employment within industry in 1961. Mining and, to a lesser extent, textiles were the two sectors which continued to release manpower. Employment in mining declined, by and large, by about 5 per cent both in 1960 and 1961, but by more than 10 per cent in Belgium, where the biggest structural adaptation is under way. The release of manpower by the coal industry in 1961 was part of the tendency towards an accelerated outflow which has continued since 1957, as a result of the shift in emphasis from increasing production to

⁴⁰ See *Bulletin hebdomadaire de statistique*, 16 December 1961.

⁴¹ 21 per cent reported in November that they were hampered by capacity limitations, against 24 per cent in June; 19 per cent that they were working at capacity limits both in June and November; and 25 per cent saw their capacity margins increase, while 22 per cent experienced a decline.

⁴² The fall in man-hours worked in Denmark was mainly due to strikes in April and May. For a review of industrial employment and productivity by major industrial branches in the first half of 1961, see the *Economic Bulletin for Europe*, Vol. 13, No. 2.

TABLE 5

Some indicators of the labour market in 1960 and 1961 in selected western European countries

Country	Unemployment less unfilled vacancies (as percentage of number employed) ^a		Unfilled vacancies (percentage change) ^b			Hours worked in industry (weekly average)		Immigrants ^c (thousands)	
	Fourth quarter 1960	1961	Total	of which:		1960	1961	1960	1961
				Building	Manu- facturing				
Austria	+1.83	+1.16	21.6	-4.0	41.1 ^d	44.9	44.7 ^e	..	..
Belgium	+3.58	..	76.2	206.0	87.3 ^f	..	..	..	..
France	+1.15	+0.77	58.6	88.5	54.8 ^d	45.5	45.6	49	76
Western Germany	-1.29	-1.61	9.1	0.1	11.0	42.0	40.6 ^g	240 (128)	295 (138)
Netherlands	-1.65	-2.27	19.9	50.5	28.5 ^d	47.9 [*]	46.5 [*]	17	..
Norway	+1.68	-0.23	8.6	35.6	9.8 ^{*h}	42.9 ⁱ	..	..	..
Sweden	..	..	1.7	-7.5	6.0	39.5	38.7 ^e	8	8
Switzerland	..	..	-4.9	-5.4	6.9	46.1	45.8 ^g	183	225
United Kingdom ^j	+0.18	+0.51	-13.7	-30.2	-15.3	45.2 ^k	45.0 ^l	..	..

Sources: National statistics.

^a + indicates more unemployment than unfilled vacancies, and - indicates the reverse situation.^b Change in last three available months of 1961 from corresponding period of 1960.^c For all countries seasonal workers are excluded. For western Germany immigrants from eastern Germany are shown in italics.^d September-November.^e January-November.^f July-September.^g Three quarters.^h September.ⁱ Men only.^j Excluding Northern Ireland.^k October.^l April.

raising productivity and reducing the relative price of coal. Employment in the textiles industry fell most in Sweden, Finland and Norway — by 2-3 per cent. In the former two countries productivity has shot up, thanks to the closure of some less efficient firms. At the other extreme, the engineering and electro-technical equipment branches were the two recording the fastest growth of employment in 1961 — by more than 4 per cent in most countries.

As in earlier years, changes in production and in labour productivity have been closely related. In most industrial branches where production either declined or stagnated in 1960 or 1961, productivity, too, declined. An outstanding example was the United Kingdom, where there was hardly any increase in output. In other countries there were few instances of an actual decline in labour productivity; and such declines in Norway, the Netherlands, western Germany and France were often associated with a temporary fall in output in certain branches. In such branches, where there is no structural problem and demand is on a rising trend, a pause in expansion of output seldom leads to a dismissal of manpower — especially in present circumstances of labour scarcity.

The fact, mentioned earlier, that industrial employment grew somewhat faster in 1961 than during the fifties in most countries is no measure of the degree of existing labour shortage, but simply means either that more manpower is now required for a given increase in output than in the past (subject to im-

provements in the mobility of labour within industry) or that total output has risen faster. As for the degree of labour scarcity, data on unfilled vacancies and unemployment suggest that the labour market grew tighter between autumn 1960 and autumn 1961 in most countries, especially Austria, France, Norway, western Germany and the Netherlands (see Table 5). In the first three of these countries, although the (imperfect) statistics indicate that the numbers unemployed still exceed the number of vacancies, the gap between the two narrowed in 1961, and, in western Germany and the Netherlands, where since 1960 unfilled vacancies have exceeded unemployment, the gap farther widened in 1961. Labour shortage has been particularly acute in the building industries of Belgium, France, the Netherlands and western Germany.

Except in France, the increasing tightness of the labour market has not caused any lengthening of the weekly average number of hours worked; and in western Germany and the Netherlands it declined by some 3 per cent.⁴³ On the other hand, immigration continued at a high rate and in most cases reached new peaks in 1961. In western Germany, in spite of the virtual cessation of the flow of manpower from eastern Germany since the summer of 1961, the total inflow of labour was greater than in 1960.

⁴³ There was also a decline in Denmark in 1961, but principally because of the strikes mentioned above. Average weekly hours in industry are at present about 40½ hours in western Germany and 43-45 hours in most other countries.

3. WESTERN EUROPE'S TRADE AND PAYMENTS

(a) Western Europe's trade in 1961

The volume of trade

In the first three quarters of 1961 the volume of western Europe's imports and exports rose respectively by about 8 and 6 per cent from the corresponding period of 1960, and by perhaps slightly less for the year as a whole. This rate of expansion, while slower than the exceptional advance of 1960, and somewhat below that of 1959,⁴⁴ has continued the tendency for western Europe's total trade to grow faster than industrial production. In contrast with 1960, however, the growth of trade was almost wholly due to the steady increase in exchanges within the area, as trade barriers in the region continued to be removed. Imports from other regions (which in 1960 rose *pari passu* with intra-western European trade) changed little, and exports to them fell.

Chart 3 shows the movement, seasonally adjusted, in the volume of western Europe's trade by area and by quarters from 1959 to 1961. Imports from North America increased rapidly until the last quarter of 1960, but have since decreased sharply. Exports to that area, having continuously declined for some eighteen months, have recovered markedly since early 1961 as economic activity in the United States revived. Assuming these movements to have continued in the fourth quarter of 1961, the volume of trade in both directions between the two areas was not very different from that in 1960.

Western Europe's imports from other (mainly primary-producing) countries are closely related to the course of industrial production. Since the value of trade with Japan, eastern Europe and the Soviet Union increased fairly rapidly in 1961, the volume of western European imports from primary producers can hardly have changed between 1960 and 1961, whereas the region's exports to these countries, whose terms of trade deteriorated slightly, fell.⁴⁵

The trade of individual countries

Although they may have contributed less in 1961 to the growth of total demand than in 1960, exports, by and large, still rose most where industrial output rose most, and vice versa. The behaviour of imports

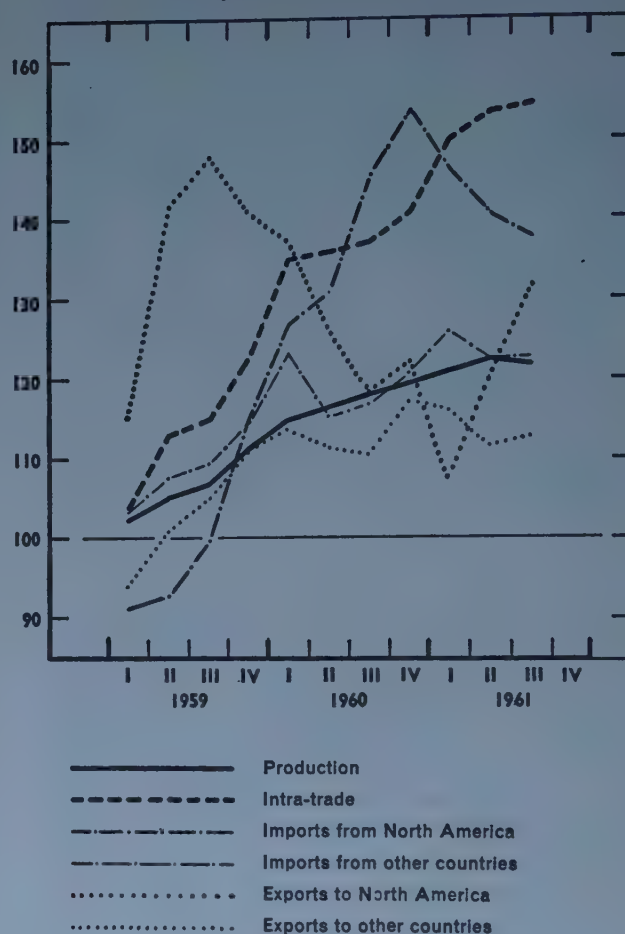
⁴⁴ The average annual rate of increase in the period 1950 to 1960 was slightly less than 8 per cent for both imports and exports.

⁴⁵ The United Nations world export price index for food, which had fallen only little in 1960, declined by 3.4 per cent in 1961; for crude agricultural materials the recovery in 1960 was more than lost in 1961; export prices of minerals in 1961 (as in 1960) fell by about 2 per cent.

CHART 3

Western Europe's^a industrial production and trade

Index numbers of volume (1958 = 100) adjusted for seasonal variations



Sources: OECD, *Statistical Bulletins—General Statistics and Foreign Trade*, Series A.

^a OECD member countries, excluding Canada and the United States.

was more irregular, and affected by such factors as stock movements and harvests, as well as by the growth of total domestic demand.

From Table 6 it can be seen that in 1961 the balance of trade improved significantly in only three countries—in western Germany mainly because of the improved terms of trade after revaluation (see section 3 (b) below), and in the United Kingdom and Sweden partly on account respectively of a fall and an unusually small rise in imports.⁴⁶ In over half the

⁴⁶ The fall in imports into the United Kingdom was partly an autonomous one due to stocks, after heavy stock accumulation in 1960, partly a consequence of restrictions on demand imposed in July, and partly a reflection of lower import unit values. For

TABLE 6
Trade of western European countries in 1960 and 1961

Millions of dollars, and percentages

Country	Total trade Millions of current dollars						Percentage change from the previous year in trade with							
	Exports		Imports		Balance		World		Western Europe		North America		Rest of world	
	1960	1961	1960	1961	1960	1961	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
EEC														
Belgium-Luxemb.	3 745	3 930	3 889	4 197	-144	-267	5	8	9	12	2	-3	-10	-1
France	6 867	7 224	6 282	6 682	+585	+542	5	6	15	16	5	-1	-6	—
Western Germany	11 420	12 687	10 164	10 940	+1 256	+1 747	11	8	17	10	-2	9	7	3
Italy	3 670	4 215	4 747	5 256	-1 077	-1 041	15	11	22	11	-1	30	9	2
Netherlands . . .	4 028	4 305	4 531	5 110	-503	-805	7	13	8	20	4	-4	5	5
EFTA														
Austria	1 120	1 202	1 416	1 485	-296	-283	7	5	9	12	-6	-16	7	-5
Denmark	1 463	1 510	1 795	1 859	-332	-349	3	4	4	6	4	-9	—	-3
Norway	880	929	1 460	1 615	-580	-686	6	11	6	15	30	-3	5	17
Portugal ^a	283	289	464	573	-181	-284	2	23	7	32	6	37	-4	5
Sweden	2 565	2 736	2 874	2 918	-309	-182	7	2	13	5	-19	-4	-2	-4
Switzerland . . .	1 883	2 043	2 234	2 695	-351	-652	8	21	10	24	—	7	9	15
United Kingdom ^b	10 297	10 754	12 758	12 314	-2 461	-1 560	4	-3	16	3	-6	-12	—	-4
Other countries														
Finland	989	1 054	1 060	1 151	-71	-97	7	9	15	13	-11	9	-8	1
Greece ^c	135	142	564	587	-429	-445	5	4	1	18	25	-6	9	-15
Iceland ^a	60	62	73	66	-13	-4	3	-10	21	-17	—	—	-28	—
Ireland ^{a b}	391	465	581	675	-190	-210	19	16	22	17	10	30	19	11
Spain ^c	574	552	575	885	-1	-333	-4	54	—	44	-2	125	-16	29
Turkey	320	345	468	501	-148	-156	8	7	4	—	-15	-23	12	25
Yugoslavia	566	556	826	898	-260	-342	-2	9	-1	15	-6	94	1	-23

Sources: OECD, *Statistical Bulletins — Foreign Trade*, Series A; and national trade statistics.

NOTE. — Total trade in value and percentages covers the calendar years 1960 and 1961. Percentage changes by area refer in general to ten or eleven months of each year.

^a January-November.

^b General exports, including re-exports.

^c January-October.

countries the change in the trade balance was negligible.⁴⁷ Of the countries whose trade balance clearly worsened, the pressure of demand on domestic resources leading to a substantial increase in imports was the essential cause in the Netherlands, Norway⁴⁸ and Switzerland, whereas in Spain the rise in imports was due both to the bad harvest and to restocking as the economy began to emerge from the period of stabilization. Belgium's exports were adversely affected both by strikes at the beginning of the year and by falling prices for steel later.

Sweden imports were affected partly by stocks, but partly by other factors, some of them temporary (see *The Swedish Economy*, Konjunkturinstitutet, November 1961). The terms of trade moved to a greater or lesser extent in favour of most western European countries other than those mainly exporting basic materials.

⁴⁷ For French trade with foreign countries, see the note on France in section 4 (a).

⁴⁸ Over one-half of the increase in Norwegian imports was accounted for by ships. Following the tightening of restrictions on demand in July, the rise in total imports slowed down towards the end of the year — partly in consequence of stock movements.

Trade by commodity groups

Appendix Tables A and B at the end of Chapter II show the commodity composition of the trade (in current values) of twelve western European countries for the first nine months of 1960 and 1961. Gross imports into these twelve countries rose by about 6 per cent, the increment being concentrated overwhelmingly on manufactures (excluding base metals and forestry products), imports of which went up by 17 per cent. The rise in imports of machinery and metal manufactures — reflecting the strength of investment demand during most of the year — was as much as 29 per cent. Although prices of manufactures were somewhat higher in 1961 than in 1960, prices of foodstuffs, several raw materials and base metals fell, so that there was a certain increase in the volume of imports of these commodities, too.

This general pattern was also true of individual countries, with the principal exception of food purchases by Italy and of raw materials purchases by

Norway and Switzerland, two countries where imports rose sharply along with a continued rapid rate of industrial expansion. The generally modest rise in the value of imports of chemicals was probably mainly the outcome of price reductions, especially in plastics and other petrochemicals, as the fast growth in recent years of world capacity for these products has outstripped demand.⁴⁹

Exports from the twelve countries shown in Appendix Table B increased by 8 per cent, manufactures again taking the lead. Western Europe is normally a net importer of commodities in the first four groups shown in the table, and its net imports of foodstuffs and raw materials (excluding fuels and forestry products) were smaller in 1961 than in 1960; countries that are normally net importers met more of their additional requirements from other western European countries than from outside the region. The additional supplies of foodstuffs came largely from France. Net imports of forestry products rose, because prices in Sweden, the major western European exporter, were not lowered sufficiently to compete with overseas suppliers.⁵⁰

The increase in net imports of fuel reflects the continuing shift from domestic coal to imported petroleum in western Europe, notwithstanding duties imposed in such countries as western Germany and the United Kingdom. Among other commodity groups, western Europe's export surplus was sharply reduced in textiles by the continuing increase in cotton textile imports from overseas low-wage countries, and in transport equipment by the fall in motor-car exports to the United States.⁵¹

The distribution of trade by areas

It was noted above that in volume terms exports to primary-producing countries fell in 1961 and that imports from them were unchanged. In value trade was roughly balanced — at about the previous year's level. Exports to African countries fell, mainly on account of smaller French shipments to Algeria, and trade with Oceania declined owing to balance-of-payments difficulties in that area. Exports to Japan sharply increased in 1961 following the liberalization of imports into that country, thus reversing the movement of trade in the previous year. The percentage

⁴⁹ There have been frequent allegations of "dumping" by United States producers, who at present probably have the greatest margin of spare capacity, and for several months France imposed countervailing duties on imports of certain plastic materials from the United States.

⁵⁰ See section 2.

⁵¹ A five-year agreement, initialled on 9 February and scheduled to enter into force on 1 October 1962, provides that signatory countries still restricting imports of cotton textiles will gradually increase import quotas by certain percentages, while it stipulates specific safeguards in order to avoid disruption of domestic industries (GATT Press Release 686, 16 February 1962).

increase in imports into western Europe from third countries was greatest for eastern Europe (including the Soviet Union), but exports to this area rose even faster (respectively 10 and 14 per cent in the first nine months of 1961).

Intra-western European trade grew by 13 per cent in 1961 (Table 7), and once again trade among EEC countries was the most dynamic element, largely because of a considerable expansion of imports into the Netherlands. On the other hand, exports from EFTA countries to other western European countries — and in particular to the Common Market — maintained as high a rate of increase as in 1960, because of much greater exports than in 1960 from the United Kingdom to France and Italy.

Trade with North America showed much variation from country to country and, for half of the countries shown in Table 6, exports in 1961 were lower than in 1960, despite the recovery during the second half of the year. The fall in exports from western Europe to the United States affected virtually all commodities, but was most marked in shipments of metals and metal manufactures, machinery and vehicles. Imports of motor-cars into the United States fell by one-half in the first ten months, following a fall of one-third in 1960, but towards the end of the year, as stocks were reduced, imports began to recover. All western European motor-car exporters saw a decline in their shipments to the United States, but British manufacturers, whose exports fell by about 80 per cent from the previous year, were particularly hard hit.⁵²

United States exports to western Europe were at about the same level as in 1960. Higher exports of machinery for the western European investment boom (but also of food to such countries as Italy, Spain and Yugoslavia, where harvests were bad) were offset by lower exports of aircraft and most basic materials (other than woodpulp).

Prospects

The growth of western Europe's trade depends partly on the rate of industrial expansion within the area and partly on demand from overseas; but intra-western European trade has also been promoted by preferential tariff reductions leading towards western European integration. Further tariff reductions within the Community took place in January 1962 and in most EFTA countries in March. Moreover, as indicated below, the western European economy should continue to expand, even though perhaps at a slower rate in some countries. On both counts, therefore, a continued expansion of trade seems likely in 1962.

⁵² Exports of cars to the United States from western Germany fell by only 8 per cent, but actual sales on the United States market of Volkswagen were above those of 1960.

TABLE 7
Quarterly changes in intra-western-European trade, 1959 to 1961
Percentage change from corresponding period of previous year

Exporting area ↓	Exports to → Period	EEC			EFTA			Other western Europe			Total western Europe		
		1959	1960	1961 ^a	1959	1960	1961 ^a	1959	1960	1961 ^a	1959	1960	1961 ^a
EEC	I	3	40	15	-1	29	11	6	27	7	2	35	13
	II	16	28	21	10	22	10	-2	26	22	12	25	17
	III	25	21	17	9	20	14	1	17	27	17	20	17
	IV	32	16	14	19	12	7	20	26	14	26	15	12
	Year	19	25	16	10	20	11	6	24	17	14	23	14
EFTA	I	1	18	8	4	22	9	-3	14	15	2	19	9
	II	10	12	13	6	13	13	6	17	6	8	13	12
	III	5	11	12	5	14	11	2	18	22	5	13	13
	IV	13	9	12	15	12	9	10	13	13	13	11	11
	Year	7	12	12	8	15	10	4	15	14	7	14	11
Other western Europe	I	-3	41	-3	-2	25	13	22	-2	8	-1	30	5
	II	5	29	10	3	17	7	10	8	26	4	21	9
	III	-6	34	5	-4	37	9	-7	32	21	-5	36	8
	IV	25	6	..	12	22	..	8	29	..	18	15	..
	Year	7	24	4	3	25	9	10	14	19	5	24	7
Total western Europe	I	2	33	12	—	26	11	2	20	10	1	29	11
	II	14	23	18	8	18	11	2	21	15	10	21	15
	III	16	18	15	7	19	13	1	18	25	11	19	15
	IV	25	13	..	17	13	..	15	20	..	21	14	..
	Year	15	21	15	8	19	10	5	20	16	11	20	13

Sources: OECD, *Statistical Bulletins — Foreign Trade, Series A*; and national trade statistics.

NOTE. — The data are derived from export values expressed in current prices.

^a Fourth-quarter data for EEC and EFTA are averages of October and November, and annual figures refer to 11 months. Annual averages for "other western Europe" are based on three quarters only.

But even if import demand in western Europe (pending a resumed rise in industrial output in such countries as western Germany and the Netherlands and renewed or faster stockbuilding) is not conspicuously buoyant in the first half of the year, increased import demand from the United States is likely to ensure both directly and indirectly—via purchases from primary producers—an expansion of world trade from which western Europe itself will undoubtedly gain. However, it is less certain that western Europe will substantially increase its own imports from the overseas primary-producing countries in 1962 and thus provide purchasing power for higher exports to them.

(b) Balances of payments

The balances of payments of western European countries in 1961

The data at present available on western Europe's international payments in 1961 are shown in Table 8. Incomplete as they are, they bring out the main feature of the region's payments situation during the year: the contrast between the United Kingdom on the one hand—the only country which had to restrain the growth of output so as to prevent a further decline in

reserves—and the rest of western Europe, especially the EEC countries, on the other.

All the EEC countries except the Netherlands earned a surplus on current account larger even than in 1960; and France and Italy continued to add to their exchange reserves.⁵³ Only two of the other industrial countries of continental western Europe appear to have achieved a bigger surplus than in the previous year—Sweden because of an unusually small rise in imports and Austria thanks to rising income from invisibles, particularly tourism. In the other Scandinavian countries, as well as in the Netherlands (and, so far as can be judged, Switzerland), higher earnings from invisibles did not suffice to compensate for the widening of the trade deficit. This was also true of Spain, where imports rose sharply owing to restocking and a poor harvest,⁵⁴ and to a lesser extent of Greece, where the rise in imports was due largely to investment goods.

Higher earnings from invisibles (especially tourism) accrued to several countries—both those with a

⁵³ Western Germany's reserves fell, but mainly on account of certain special capital payments (see below).

⁵⁴ In most other countries, a lower rate of stock accumulation than in 1960 reduced import demand.

relatively strong reserve position, such as Italy and Switzerland, and to a lesser extent Spain and Austria, and others, such as Greece. But in western Germany the fall in invisible receipts more than offset the larger surplus on visible account, and in the United Kingdom and most Scandinavian countries net income from invisibles also declined.

Broadly speaking, the tendencies evident in 1961 in continental western Europe were much the same as in the preceding year. Indeed, in EEC countries (except Belgium and western Germany) net income from invisibles has been rising for several years, even when, as in the Netherlands, economic expansion and virtually full utilization of domestic resources have enlarged the deficit on commodity trade. This has also happened in other countries where income from tourism is an important source of total net invisible receipts. In most Scandinavian countries, however, where tourism is less important and other invisible transactions, such as shipping, predominate, receipts from invisibles did not on the whole offset the widening of the trade deficit prior to 1961 either. In the United Kingdom, the steady fall in net income from invisibles since 1958 has become an additional disequilibrating factor.⁵⁵

In western Germany and the Netherlands the currency revaluations of March 1961 sought to kill two birds with one stone: a reduction both in overall pressure in the domestic economy and — particularly in western Germany — in the large surplus on the current balance of payments. As yet, however, these measures have barely affected the balance of trade. The decline in central bank exchange reserves in western Germany was due largely to advanced debt repayment, though the balance on private capital transactions also contributed.⁵⁶ Among the diverse reasons for this development were such measures as the reduction of interest rates and the fixing of minimum reserve requirements, so as to encourage an outflow and discourage an inflow of foreign funds;⁵⁷ the reversal of speculative attitudes and, in the third quarter, political tensions connected with the Berlin issue. There was also a reversal of leads and lags, reflected in the sharp swing of the residual item in the

Balance of payments of western Germany

Millions of Deutschemark

	1960		1961	
	First half	Second half	First half	Second half
Balance on current account ^a	2 207	2 179	2 772	488
Balance on capital account	235	1 465	-4 866	-352
Net balance of all transactions	2 442	3 644	-2 094	136
Residual item	1 369	552	1 415	-1 384
Change in Central Bank gold and foreign exchange reserves ^b	-3 811	-4 196	679 ^c	1 248
Change in net foreign assets of the commercial banks ^b . .	1 730	524	-2 504	2 240

Source: *Monthly Report of the Deutsche Bundesbank*, January 1962.

^a Imports c.i.f.

^b The minus sign represents an increase.

^c Excluding book losses caused by revaluation.

balance of payments from a large plus in the first half of 1961 to an equally large minus in the second half.

The much smaller surplus on west German current account in the second half of 1961 (compared with the same period of 1960) was almost wholly due to invisibles, and in particular to net tourist expenditure; but indemnification payments, and net interest and dividend payments on the considerable inflow of foreign funds in 1960, were also higher (see table above). The trade surplus, however, was still at a higher level until the fourth quarter than in the previous year. Exports were 6.3 per cent higher in value and 5.7 per cent in volume, but the rise in exports (after seasonal adjustment) ceased after mid-year. However, the effects of rising home costs and possibly also of revaluation have begun to show in the decline of new export orders.

Imports into western Germany in 1961 were 8 per cent higher in volume than in 1960, but owing to revaluation and the decline in raw material prices they were only 4 per cent greater in value. Imports of finished goods and — more recently — also of food, following a rather poor harvest, rose sharply; but imports of raw materials and semi-manufactures declined as stocks were reduced.

The west German capital account thus contributed significantly after the first quarter of 1961 to easing strains in international payments;⁵⁸ yet "it would be a mistake to conclude from this that on a longer view, too, the Federal Republic faces an entirely new

⁵⁵ Cf. "Invisibles in the Balance of Payments", Bank of England, *Quarterly Bulletin*, December 1961, and E. Devons, "World Trade in Invisibles", *Lloyds Bank Review*, April 1961.

⁵⁶ Advance repayment in the second quarter of postwar debt to the United States, the United Kingdom and France amounted to \$800 million, and credits extended through the IMF in the third quarter to another \$270 million (for further details see *Monthly Report of the Deutsche Bundesbank*, January 1962). Without these and other special payments there would have been a net addition to central bank reserves in 1961 of DM 3.7 billion instead of an actual loss of DM 2 billion.

⁵⁷ In early February 1962 the special minimum reserve regulations for deposits by foreigners and for credits taken up by banks' customers abroad, which had been designed to check the inflow of foreign funds, were lifted.

⁵⁸ The very substantial decline in the deficit on capital account in the second half was due, apart from the decline in the special official disbursements already referred to, to temporary net capital imports by the commercial banks in the fourth quarter, amounting to DM 2.2 billion. This inflow (largely for window-dressing) was reversed in January 1962. If all these special items are excluded, the capital account in the second half showed a deficit of over DM 1 billion. (See *Monthly Report of the Deutsche Bundesbank*, January 1962.)

balance-of-payments situation".⁵⁹ For one thing, as external indebtedness is reduced, scope for official repayments on the recent scale will greatly narrow. And the reversal of short-term monetary flows is irrelevant to the longer-run position. Development aid depends on the elaboration and submission of projects by developing countries, and is unlikely to increase swiftly, but net private capital exports for direct investment might respond faster if domestic investment becomes less attractive both to residents and non-residents as a result of a slower rate of domestic expansion.⁶⁰

The future of the current balance in western Germany is governed by a number of influences tending in opposite directions. On one side, the backlog of orders is still large enough to prevent any early decline of exports from their present high level; and if economic expansion abroad continues, export orders may accelerate. In the longer run, increased outlays on international aid, much of which will probably be spent on west German goods, will also promote exports. On the other side, export growth may be checked as rising domestic costs are passed on to prices once profit margins have been squeezed. As for import prospects, purchases of finished goods, in particular for private consumption, may be expected to continue to rise. Naturally, the long-term outcome will depend very much on the future rate of economic growth, and on the extent to which imports of agricultural produce increase as a result of the agreement reached on the Common Market for agriculture in the EEC area.⁶¹ In sum, the overall balance of payments may well revert to a surplus in 1962, though a rather smaller one than in earlier years.

Provisional estimates for the Netherlands indicate a reduction by about one-half in the current payments surplus during 1961, and a surplus of similar size is expected in 1962. The relatively small increase in exports was due at least as much to supply difficulties as to other factors, and in any event the strength of domestic demand rendered a substantial increase in imports certain. Since net capital movements were of the same order of magnitude as in 1960, there was a deficit on the combined current and long-term capital account (during the first three quarters) in place of the surplus achieved in the same period of the previous year, and foreign exchange holdings fell slightly.

Apart from the special case of western Germany, however, no continental country except Portugal — not even those with larger current deficits than in 1960 — experienced a significant decline in exchange

reserves.⁶² The few data available do not permit a full assessment of the nature of the capital inflow that sustained or increased these reserves; but they suggest that in France and Italy, for example, much of it has consisted of direct investment. In the countries of Scandinavia, the inflow appears to have been mainly of short-term or medium-term commercial credits (for example, for financing imports of ships by Norway). In those countries, where deficits or only small surpluses have occurred for a number of years, the underlying payments position is rather less secure than may appear from the behaviour of foreign exchange reserves; and in both Sweden and Denmark the current balance of payments is expected to worsen in 1962. Nevertheless, a distinguishing feature of the expansion of output in Denmark since 1958 has been relative freedom from the constraints imposed in earlier years by the weakness of the balance of payments, and this fortunate situation is expected to continue during 1962 in all the Scandinavian countries.

The experience of the United Kingdom has been quite different. The resumed rise in output had to be arrested owing to the substantial deficit on current account during 1960 and the outflow of short-term capital that followed the two revaluations of March 1961. This culminated in a serious drain of exchange reserves, and in July a number of measures were adopted, including substantial borrowing from the International Monetary Fund, in order to strengthen the external financial position.⁶³ The chief hope placed in those measures designed to bring about an early improvement in the current balance of payments was that restraint of domestic demand would free resources for exports and prevent further rises in production costs tending to render exports less competitive. So far, however, the subsequent modest improvement in the current balance has been due not to exports, which (after seasonal adjustment) have not risen since the first quarter of 1961, but to a fall in the value of imports (due partly to lower import prices); the current balance of payments is probably still in deficit.⁶⁴ Although the performance of exports in 1962

⁵⁹ The exchange losses of Portugal are attributable to political, rather than to economic, factors.

⁶⁰ For details, see *Economic Bulletin for Europe*, Vol. 13, No. 2, sections 9 and 10.

⁶¹ It was so in the third quarter, the latest for which data are available. Problems of measurement — reflected in the large residual — make it difficult to assess the true movement of the current balance. But even if it is assumed that the residual represents mainly unidentified current income, the current account during 1961 was probably only in rough balance.

In connexion with the review of government overseas expenditure, the Federal German Government has agreed to increase its defence purchases from the United Kingdom in the next two years. The additional annual revenue from defence purchases is equal to roughly one half of the current annual foreign exchange cost of maintaining British military forces in western Germany. Negotiations on other reductions of net expenditure are still in progress.

⁵⁹ *Monthly Report of the Deutsche Bundesbank*, October 1961, p. 44.

⁶⁰ Of a total of DM 5 billion made available for development aid in 1961 and 1962 actual disbursements amounted to some DM 1.8 billion in 1961.

⁶¹ See section 4 (b).

will be crucial, there is little prospect — pending the results of the longer-term review of overseas expenditure — of any early return to a satisfactory surplus to finance the normal outflow of long-term capital, and the balance of payments is likely to remain the major determinant of the pace of economic expansion during the present year.

Capital movements and international liquidity

Short-term capital movements in the first half of 1961 (in themselves a natural sequence of those that occurred in the closing months of 1960) were remarkable in being associated with a simultaneous waning of confidence in the two major reserve currencies. Heavy losses of reserves by the United Kingdom have been dauntingly frequent, and sometimes linked, as in 1957, with general currency speculation; but there was no precedent for a waning of confidence in both sterling and the dollar at the same time. The emergency measures taken under the Basle Agreement, the shortening of the International Monetary Fund's credit facilities as a result of the large loan granted to the United Kingdom, nervousness on the international gold market, and the possibility that the United States might have recourse to its drawing rights on the Fund — all of these developments have drawn attention once more to the problem of international liquidity. The problem subsumes a number of unsettled questions: are world reserves (principally gold plus dollar and sterling liabilities) increasing fast enough in relation to the growth of world trade, so that there is no *all-round* shortage of liquidity; are these reserves equitably distributed; can the continued availability of sterling and the dollar as currency reserves be reconciled with satisfactory rates of growth of the British and American economies; and (a related problem) can means be devised of providing enough international credit either to discourage movements of short-term speculative funds or to ensure that they do not undermine confidence in the key currencies on which the present system of international payments depends?

The decision reached in Paris in January 1962 between the International Monetary Fund and ten countries (the United States, United Kingdom, Canada, Sweden, Japan, and the five EEC countries other than Luxembourg) puts at the Fund's disposal, under certain conditions, supplementary resources to the value of \$6 billion, and this goes some way towards dealing with the risk of a crisis of confidence; but it falls short of the more far-reaching proposals which have been made to deal with the "liquidity gap", the existence and extent of which is still debated.⁶⁵

⁶⁵ The principal conditions of the agreement are that: a request by the Fund for supplementary resources for lending to one of the ten countries is decided on by a (weighted) majority

Moreover, the final decision on the use of their currencies rests with the western European countries which are in a strong creditor position, in particular in the event for which the supplementary resources were primarily designed — assistance to the two major reserve currencies. No doubt the transfer of at least some of the power of decision-making in international lending from the International Monetary Fund as such to a small group of creditor countries reflects no more than the radical change in the distribution of liquidity that has occurred since Bretton Woods; and whether these arrangements for supplementary lending will be implemented in the same spirit as other Fund loans is entirely a matter for conjecture. In the last resort, of course, creditor countries have as keen an interest as debtors in furthering international co-operation which can prevent a breakdown of confidence in the payments system and bring about any desirable changes in an orderly fashion.

Although the present uncertainty surrounding the two reserve currencies carries with it the risk of further speculative movements of short-term capital — and anxiety about one could spread to the other — the United States has greater flexibility in correcting the underlying weakness of its balance of payments than has the United Kingdom. The resources of the United States are still so considerable as to provide a cushion for any temporary increase in the basic deficit, such as that foreseen as a temporary accompaniment of re-expansion in 1962, until longer-term measures can bear fruit. "The biggest immediate danger to the dollar, in fact, comes from worrying about it."⁶⁶ It is to be hoped that the availability of supplementary resources will at least discourage speculative capital movements and so achieve the intended effect of preserving the stability of the international payments system. Otherwise the efforts of the United States authorities to improve the underlying payments position of the dollar could be severely handicapped.

The essential issue, so long as there is no agreement

vote of the other nine; a country can withhold its share of a duly voted loan if its own payments position is such that it considers calls should not be made upon it; a country's share can be repaid by the Fund if the country itself runs into payments difficulties during the loan's currency period. (See *International Financial News Survey*, IMF, 12 January 1962.) The agreement is still subject to parliamentary ratification in some countries.

⁶⁶ Maxwell Stamp, "The Problem of International Liquidity; More Crises in the Making", *The Statist*, 29 December 1961. See also the discussion in Chapter I, section 6, of the *SURVEY* for 1960, which concluded that "there is no 'dollar problem in reverse' so urgent as to call for radical solution, other than that arising from the United States' exposed position as a world banker. . . . It is most important that the underlying soundness of the United States balance-of-payments position be appreciated both within and without the United States. Within, so that there shall be no resort to destructive panic measures. Without, so that there shall be no repetition of the confidence of crisis in international financial circles which played a major part in the money muddles of 1960."

TABLE 8
Balances of goods and services, 1958 to 1961

Millions of current dollars

Country and period	Total	of which :		Country and period	Total	of which :	
		Visible	Invisible			Visible	Invisible
Austria				Netherlands			
1958	50.4	-112.2	162.6	1958	414	32	382
1959	47.6	-139.0	186.6	1959	483	19	464
Jan.-Sept.: 1960	0.1	-182.0	182.1	Jan.-Sept.: 1960	253	-64	317
1961	28.9	-192.2	221.1	1961	117	-241	358
Belgium-Luxembourg ^a				Norway			
1958	374.8	18.0	356.8	1958	-164	-513	349
1959	88.1	-84.1	172.2	1959	-92	-465	373
1960	160.4	-38.1	198.5	Jan.-Sept.: 1960	-91	-438	347
Jan.-Sept.: 1960	146.4			1961	-189	-540	351
1961	16.0						
Denmark				Portugal ^b			
1958	125.5	19.0	106.5	1958	-23	-85	62
1959	13.0	-109.2	122.2	1959	-47	-87	40
Jan.-Sept.: 1960	-46.7	-158.6	111.9	1960	-70	-106	36
1961	-65.8	-168.2	102.4				
Finland				Spain			
1958	76.4	44.7	31.7	1958	-220.6	-300.6	80.0
1959	27.0	0.3	26.7	1959	99.3	-235.2	135.9
Jan.-June: 1960	-91.2	-109.3	18.1	Jan.-June: 1960	178.4	99.7	78.7
1961	-99.8	-118.4	18.6	1961	35.0	-66.7	101.7
France ^b				Sweden			
1958	-313	-295	-18	1958	-50	-283	233
1959	717	436	281	1959	1	-202	203
Jan.-Sept.: 1960	519	81	438	Jan.-June: 1960	-96	-197	101
1961	641	314	327	1961	-1	-109	108
Western Germany				Switzerland			
1958	1 876	1 180	696	1958	224	-160	384
1959	1 709	1 276	433	1959	175	-230	405
1960	1 772	1 244	528	1960	95	-351	446
1961	1 659	1 642	17				
Greece				Turkey			
1958	-187.5	-241.5	54.0	1958	-61.1	-36.5	-24.6
1959	-145.2	-211.1	65.9	1959	-121.3	-66.4	-54.9
Jan.-Sept.: 1960	-146.0	-236.7	90.7	1960	-121.3	-85.5	-35.8
1961	-168.8	-290.6	121.8				
Ireland				United Kingdom			
1958	-65.2	-191.6	126.4	1958	910	98	812
1959	-96.3	-230.9	134.6	1959	258	-280	538
1960	-58.4	-208.4	150.0	Jan.-Sept.: 1960	-644	-809	165
				1961	-302	-400	98
Italy				Yugoslavia			
1958	297	-372	669	1958	-184	-238	54
1959	557	-132	689	1959	-169	-219	50
Jan.-Sept.: 1960 ^c	293	-580	873	1960	-215	-271	56
1961 ^c	333	-729	1 062				

Sources : IMF, *International Financial Statistics* ; and national statistics.

NOTE. — For the following countries imports are measured c.i.f., and the corresponding expenditure on freight and insurance, etc., is not included in the invisible account : Austria, Finland, western Germany, Ireland, Norway (1960 and 1961), Sweden, Switzerland, and Yugoslavia.

^a Including private transfers.

^b For France (all years) and for Portugal (1960), the franc and escudo areas respectively.

^c On a cash basis.

on far-reaching measures for strengthening international liquidity, is the ability of the United Kingdom to bring its balance of payments into equilibrium. The contrast between the instability of the British balance of payments and the strong position of the EEC countries is not, moreover, a feature of the last two years only. Current balances on goods and services account since 1957 are shown in Table 8, while Table 9 shows the annual changes in foreign exchange reserves of western European countries and the United States.⁶⁷ Whereas the United Kingdom's reserves have fluctuated in the last four years and (net of indebtedness to the International Monetary Fund as a result of drawings in 1956 and 1961) were only slightly higher at the end of the period than at the beginning, the combined reserves of other OECD countries have grown steadily—by some \$10 billion, of which the six EEC countries account for almost \$8 billion. These gains by western European countries (and also Japan) match, by and large, the outflow of gold from the United States and the increase in external dollar balances.⁶⁸ Until about 1958 the outflow from the United States to western Europe represented little more than a return to normal, partly promoted by American policy, after years of dollar shortage. But the continued outflow of gold and the basic deficit of the United States balance of payments since that time cannot be viewed in the same light. Since the beginning of the present phase of western European expansion (and the implementation of the French stabilization programme) the reserves of both France and Italy have risen more than those of western Germany and reached respectively \$3 billion and \$3.4 billion by the end of 1961.⁶⁹ The major disequilibrium in western Europe's payments is thus no

longer (as it was between 1955 and 1958) that arising from the persistent surplus of western Germany, on the one hand, and the large deficit of France on the other; it is the imbalance between the United Kingdom and (essentially) the whole group of EEC countries. Given that reserves in France and Italy now cover respectively five and eight months' imports, so that any continuation of this rate of accumulation could pose problems resembling those caused by the persistent surpluses of western Germany, it has seemed worth while to examine more closely economic developments in these two economies, with special attention to their payments position (see section 4 (a)).⁷⁰

It is singularly interesting to observe (without attributing cause and effect) that France, Italy and western Germany have had not only the highest rates of reserve accumulation among western European countries, but also some of the highest rates of economic growth. The United Kingdom, on the other hand, has had relatively slow rates of growth and constant balance-of-payments difficulties. To a large extent, and ignoring year-to-year fluctuations, the increase in reserves in the EEC countries has resulted from the regular achievement of a current balance-of-payments surplus; whereas in the United Kingdom there has been a deficit on current account for three years in succession and earlier surpluses have rarely been large enough to meet the calls on capital account.⁷¹ This can be seen from Table 9, which relates the cumulative balance on goods and services for the years 1958 to 1961 to the increase in exchange reserves since the beginning of that period. Though necessarily approximate, the relationship holds for the United Kingdom also, if the reserves are taken net of transactions with the IMF.⁷²

The preceding discussion on current balances of

⁶⁷ The data relate only to official holdings of central banks and treasuries. They exclude net creditor positions vis-à-vis the EPU up to 1959 and net credits under bilateral settlements of outstanding EPU debt thereafter. They include any transactions with the IMF, but not credits available under drawing rights or stand-by arrangements. It is arguable that the inclusion of such net credits would be more appropriate; on the other hand, the only truly liquid resources are those held by central banks and treasuries. Though it is unlikely that the general picture revealed by Table 9 would change, it should none the less be borne in mind, for example, that the change in reserves in a number of countries in 1961 reflects the net drawing on the IMF of \$1,036 million by the United Kingdom, partly financed by other OECD countries. Finally, the figures do not include changes in the net holdings of commercial banks, which can be of particular importance in countries such as western Germany, Italy, the Netherlands and Switzerland.

⁶⁸ In the period 1958 to 1961 western Europe was a net lender to the Fund of \$900 million, made up of net borrowing by the United Kingdom of \$475 million and net lending by other countries of \$1,380 million. Nearly \$1,440 million was provided by EEC countries, of which \$900 million in connexion with the United Kingdom drawing of 1961.

⁶⁹ Stabilization policies in Spain have also brought about a substantial increase in reserves. (Cf. *Economic Bulletin for Europe*, Vol. 13, No. 2, section 10.) They are officially expected to reach \$1 billion by the end of 1962.

⁷⁰ There can be no objective criterion of what constitutes a sufficient level of reserves, which, as for domestic banking liquidity, must be assessed in the light of experience. One suggestion (R. S. Gilbert, "World Payments and the IMF", *The Banker*, September 1961) is that an import coverage of four to five months is sufficient. Another (Maxwell Stamp, *op. cit.*) is that the test is whether countries behave as if their own or other countries' reserves are inadequate. On either count it is clear that reserves of the EEC countries are on the whole more than adequate and those of the United Kingdom are not.

⁷¹ The relationship between the balance of payments and expansion is a complex one, but it is not entirely irrelevant that in France, Italy and western Germany, during the period in question, the expansionary impulse has come to a large extent from exports. (See the discussion on this subject in the *SURVEY* for 1958, Chapter III, section 2.)

⁷² Apart from such short-term capital movements affecting reserves, it should be borne in mind that for all countries estimates of the current balance of payments are subject to a fairly wide margin of error—reflected in a (sometimes large) balancing item, representing unidentified transactions that may be on either current or capital account. Further, the substantial surpluses of western Germany did not lead to an even faster accumulation of reserves during this period only because of an adverse balance on capital account, representing mainly official transactions, and of transfer payments (e.g. indemnifications).

TABLE 9

Gold and foreign exchange reserves of western Europe and the United States

Millions of dollars

Period	Increase in reserves (end of year)											
	Belgium-Luxembourg	France	Western Germany	Italy	Netherlands	Total EEC	Spain	Continental OECD	United Kingdom	Total OECD	United States ^a	
1957 to 1958	314 ^b	341 ^b	592	764	415	2 420	-38	2 840	796 ^b	3 640	-2 275	-1 202
1958 to 1959	-118	1 008 ^b	-211	878	-34	1 530	130 ^b	1 756	-333 ^b	1 420	-1 075 ^c	-2 668 ^c
1959 to 1960	200	350 ^b	2 143	126	387	3 260	343	3 904	495 ^b	4 410	-1 703	-2 226
1960 to 1961	217	870	-632	335	-12	670	288 ^b	1 254	93 ^b	1 570	-285 ^e	-886 ^e
1957 to 1961	613	2 569	1 892	2 103	756	7 880	723	9 754	1 051	11 040	-5 338 ^e	-6 982 ^e
of which :												
Current balances ^a												
(percentages) . .	129	69	401	56	180	..	67	..	54	..	-58	
Gross reserves at end of year												
1957												
Million dollars . .	1 026 ^b	371 ^b	4 634	1 311	974	8 320	106	12 853	2 273 ^b	15 400	22 860	-15 158
Months of imports	3.5	0.5	7.5	4.5	3	4	1.5	4.5	2.5	4	21	..
1961												
Million dollars . .	1 639	2 886	6 526	3 414	1 730	16 640	829 ^b	22 751	3 324 ^b	26 610	17 460	-21 943
Months of imports	4.5	5.5	7.5	8	4	6	10	6	3	5.5	15	..
	Austria	Denmark	Norway	Portugal	Sweden	Switzerland	Greece	Ireland	Turkey	Yugoslavia		
1957												
Million dollars . .	498	172	185	750	445	1 867	193	258	315	65		
Months of imports	5.5	1.5	2	18	2	11.5	4.5	6	9.5	1		
1961												
Million dollars . .	789	213	269	665	640	2 690	219	277	241	108		
Months of imports	6.5	1.5	2	13	2.5	12	3.5	6	6	1.5		

Sources: OECD, *Statistical Bulletins*, and national statistics.

NOTE.—Data relate to gold and foreign exchange holdings of central banks and treasuries only. They exclude bilateral claims arising from the liquidation of the EPU and net claims on the EPU prior to its liquidation. (See also footnote 67.)

^a Figures in the first column refer to gold and convertible currencies only, and in the second column to short-term dollar liabilities of US banks to foreigners.

^b Exchange reserves include the following more important transactions with the IMF: Belgium-Luxembourg: net drawing in 1957 of \$50 million, repaid in 1958. France: net drawing in 1957 of \$263 million and in 1958 of \$131 million; repayments in 1959 of \$213 million and in 1960 of \$186 million.

Spain: net drawing in 1959 of \$50 million, repaid in 1961. United Kingdom: net drawing in 1956 of \$562 million and in 1961 of \$1,036 million; net repayments in 1959 of \$222 million and in 1960 of \$324 million. Figures for 1961 also reflect lending to the United Kingdom through the IMF by other western European countries.

^c Including an additional gold subscription to the IMF of \$344 million and a total subscription of \$1,375 million.

^d The cumulative balance on goods and services in 1958-1961 related to the change in reserves, end of 1957 to end of 1961. (1961 balances provisional or estimated.)

^e 1961 data up to September only.

payments and exchange reserves is not, of course, intended to imply that there is any particular virtue in a continual accumulation of reserves beyond a certain point—quite the reverse. It could be argued—as much on moral and ethical as on other grounds—that mature industrial countries ought to run a surplus on goods and services account (provided always that it is not attained or enlarged by illiberal import policies) and to make these national savings available to developing countries which are in deficit. Large sums are already provided; but if the present

tendency of reserve accumulation in the EEC countries continued it could be to the detriment of other countries. Compensatory capital movements are one possibility of counteracting the effect of current surpluses, and revaluation has been tried in two countries as a means of changing the current balance. All are in a position to face with equanimity a worsening of their current balance and some loss of foreign exchange, whether higher net imports arise from internal excess demand or from the gradual elimination of quantitative and tariff restrictions.

4. POLICIES AND PROSPECTS

(a) Policies

As was noted in a previous section, in some countries — notably western Germany and the Netherlands — the growth of national output temporarily halted or slowed down after the spring of 1961. Even though a weakening of aggregate demand may have been partly responsible for this development, continuing high levels of economic activity and employment, and the prospects for the near future, do not appear to call for any early change in the policies at present pursued. But, since expectations about the development of demand could be disappointed, prudence dictates the need for readiness to take prompt action.

In several countries, moreover, a major concern of policy remains that of holding aggregate demand within the limits set by potential additions to supply, so as to prevent an excessive strain on resources leading to price rises and possibly also to balance-of-payments difficulties. Except in the United Kingdom, the present period of expansion — in contrast with its predecessors — has continued for more than three years without creating balance-of-payments difficulties necessitating remedial measures which invariably reduce the growth of the economy below its potential (see section 3 (b)). On the contrary, as shown in Table 9, the reserve position of most industrial countries has steadily improved since 1957 (when, by and large, the previous phase of expansion came to an end).

For the most part, the authorities in the industrial countries have succeeded in maintaining a rough balance between supply and demand at full employment levels. But they have been no more successful than in the past in avoiding a certain increase in the level of prices, particularly that arising from the pressure exerted on domestic costs by increases in wages and other incomes in excess of gains in productivity. With the growth of output slackening, there has been — as shown in section 2 — a slower growth of labour productivity also. That the rise in prices has not been, in general, excessive and that the rise in industrial prices, in particular, has often been less than in domestic costs, may be attributed to a number of factors (including some successes of economic policy). Among them, for example, were the investment boom since 1959 which has enlarged capacities, the challenge to efficiency arising from the progressive liberalization of imports and from tariff reductions, an increase in the supply of goods owing to wider trade deficits, a fall in import prices, and additions to the labour supply in some countries not only from the natural increase in the population of working age but also from greater immigration. These and other factors easing pressure on the price level were discussed in

the preceding issue of the *Economic Bulletin for Europe*.⁷³ The tendencies noted there — and in particular the tendency for the rise in prices and costs in a number of countries to strengthen in the latter months of the year — have since persisted. The points made there are briefly recapitulated below and, where appropriate, the narrative is brought up to date.⁷⁴

As can be seen from Table 10, retail prices generally rose more in 1961 than in the previous year, and markedly so in Austria, Denmark, Turkey, Norway, and the United Kingdom (where the increase

TABLE 10
Changes in the cost of living

Percentage changes between the fourth quarters
of consecutive years

	1957 to 1958	1958 to 1959	1959 to 1960	1960 to 1961
Austria	0.5	2.6	0.8	5.2
Belgium ^a	0.3	1.9	-0.2	1.0
Denmark ^b	1.5	2.4	1.5	5.8
Finland	4.0	2.9	2.5	1.2
France	11.2	6.0	3.5	3.6
Western Germany	1.1	3.7	—	2.4
Greece	0.7	3.3	2.5	-0.1
Ireland ^c	2.7	-1.7	2.8	2.5
Italy	1.3	1.2	1.5	2.6
Netherlands	-1.4	3.7	0.6	2.2
Norway	6.1	1.0	0.2	4.5
Portugal	1.1	1.9	1.0	1.3
Spain	12.1	4.2	0.8	2.6
Sweden	3.2	1.3	3.7 ^d	2.5
Switzerland	1.1	-0.7	1.8	2.9
Turkey	19.4	18.9	-1.2	5.8
United Kingdom	2.0	—	1.9	4.2 ^e
Yugoslavia	2.3	2.0	10.5	13.7 ^f

Sources: National statistics.

^a Excluding rent.

^b Average of October and January.

^c November.

^d Index affected by the introduction of a 4 per cent sales tax in January 1960.

^e Index affected by higher indirect taxes in July 1961.

^f Index affected by price reforms and other factors. (See section 5.)

⁷³ Vol. 13, No. 2, November 1961 (section 7).

⁷⁴ At the time of publication of the *Bulletin*, there was still some doubt concerning the actual increases in earnings that would result from the general wage settlement in Denmark. It now appears that the new increases will not necessarily incorporate those which had already taken place since the previous collective agreement.

In Norway, the total wage-bill for 1961 was some 9 per cent higher than in 1960. Of this increase 3 to 3.5 per cent was due to new collective agreements in the course of the year (including compensation for price increases), 2 per cent to changes in the total and the structure of employment, over 1 per cent to increased social security contributions, and about 2.5 per cent to wage drift. The effects of the wage agreements on prices should continue to be felt during 1962. (*Økonomisk utsyn over året 1961*, Central Bureau of Statistics, Oslo, 1962.)

TABLE 11
Productivity and wage costs in industry
Index numbers, previous year = 100

	1958	1959	1960	1961 ^a		1958	1959	1960	1961 ^a
Austria					Ireland				
Production	103	104	108	105	Production	101	109	108	109
Employment	100	100	103	103	Employment	101	102	102	104
Output per worker	103	104	105	102	Output per worker	100	107	106	104
Weekly earnings ^b	103	103	107	110	Weekly earnings	106	103	107	105
Wage costs	101	99	102	108	Wage costs	106	97	101	101
					Prices of manufactures	103	100	101	102
Denmark					Netherlands				
Production	103	108	108	103 *	Production	100	109	113	101
Man-hours worked	101	105	104	98	Employment	97	102	103	102
Output per man-hour	102	103	104	105	Output per worker	103	107	110	99
Hourly earnings ^c	104	108	107	112 *	Weekly wage rates ^h	104	102	109	104
Wage costs	102	105	103	107	Wage costs	101	95	99	104
Prices of manufactures ^d	..	100 *	101	103	Prices of manufactures	98	100	100	100
Finland					Norway				
Production	97	109	114	107	Production	100	106	107	107
Employment	..	108	106	102	Employment	97	100	103	102
Output per worker	..	101	108	105	Output per man-hour	103	106	104	105
Hourly earnings	105	106	106	107	Hourly earnings ⁱ	104	109	104	106
Wage costs	..	105	99	102	Wage costs	101	102	100	102
Prices of manufactures	110	100	102	101	Prices of manufactures	97	100	102	100
France					Sweden				
Production	104	103	111	106 ^e	Production	103	104	106	104
Man-hours worked	100	97	102	102	Employment	98	100	105	102
Output per man-hour	105	106	109	104	Output per man-hour	105	105	102	103
Hourly wage rates ^f	112	106	107	108	Hourly earnings	106	104	106	109
Wage costs	107	100	99	104	Wage costs	101	99	105	106
Prices of manufactures	107	107	104	103	Prices of manufactures	101	100	102	103
Western Germany					United Kingdom				
Production	103	107	111	106	Production	98	107	107	101
Employment	100	99	103	102	Employment	99	100	103	101
Output per man-hour	105	108	108	105	Output per worker	100	107	104	100
Hourly earnings	107	106	110	111	Weekly earnings ^g	103	105	107	105 *
Wage costs	101	98	102	107	Wage costs	104	98	103	106
Prices of manufactures ^g	101	99	102	102	Prices of manufactures	101	100	102	102

Source: National statistics.

NOTE. — Except for western Germany, where the data are taken directly from national sources, output per worker (or per man-hour) is derived by dividing the series for output by the series for employment (or man-hours worked). Similarly, wage costs are obtained from output per worker and earnings.

^a Data for 1961 are provisional and generally cover eleven months (and the corresponding period of 1960).

^b Including building.

^c Including building, transport and some service industries.

^d Machinery and equipment.

^e Excluding food industries.

^f Manufacturing only.

^g Industrial products.

^h Including non-industrial sectors.

ⁱ Adult male workers only.

was greater than higher indirect taxes alone could occasion). Prices in France again rose by nearly 4 per cent, mainly owing to higher food prices in the second half of the year as a result of increased agricultural support. Such support also raised food prices appreciably in the Scandinavian countries and in western Germany.⁷⁵

⁷⁵ In Sweden, food prices were raised at the beginning of 1962 under the "3 per cent rule" relating Swedish production costs in agriculture to world market prices, and were further influenced

Table 11 shows the rise in industrial wage costs that has resulted in several western European countries

by the "income rule" linking incomes in agriculture to industrial wages. The effect of these measures is estimated to add almost 1 per cent to the index of retail prices. (See *The Swedish Economy*, Konjunkturinstitutet, November 1961.) In Norway, factor income in agriculture increased by 8 to 10 per cent, and the rise in food prices caused an estimated increase of 1 per cent in the consumer-price index. (See *Økonomisk utsyn... op. cit.*) For further details on price and income support in agriculture in various countries, see OEEC, *Trends in Agricultural Policies since 1955*, Paris, July 1961.

from the swifter rise of earnings than of productivity. Compared with the previous year's increase, costs rose sharply in Austria, Denmark, western Germany and the Netherlands; they also went up briskly in the United Kingdom and Sweden, continuing the trend already evident in 1960. Countries where labour shortage has been particularly acute—for example, Austria, western Germany and Sweden—had the biggest increases in wage costs in 1961; but in others, where the demand for labour is also very firm, such as France and Norway, pressure on costs has been less, though growing. The effect of the rise in costs on prices appears to have been tempered in nearly all countries by the various factors referred to above, and not least by lower profit margins, for prices of manufactured goods have risen rather less than labour costs.⁷⁶

In the United Kingdom the increases in labour costs aggravated the balance-of-payments difficulties. Apart from their aim of speedily improving the current balance, the policies adopted in July 1961, which went rather farther than the pressure of domestic demand alone required, were designed to prevent wage awards on the scale of those granted in the winter of 1960/61. While attempting in the meantime to devise a more positive approach to the problem of wages, the Government has indicated that it will be driven to take further restrictive measures "to protect the currency and the reserves" if increases in money incomes cannot be kept "in line with the increase in national production".⁷⁷

The maintenance of high levels of employment and economic activity unquestionably poses a difficult problem of price stability in all countries, owing to constant pressure on the wage level; indeed, this is one of the most elusive goals of policy in a market economy. This is not the place to review all the elements that constitute a wages policy appropriate for the average increase in wages, for a distribution that allows for differing sectoral rates of growth of productivity, and for attracting labour to uses where it is most needed. The ingredients of such a policy will vary from country to country and the subject is

⁷⁶ In the Netherlands, for example, the index of profit margins per unit of output (1959 = 100) was 97.9 in 1960 and 94.5 in 1961 (*Netherlands Economic Bulletin for the Foreign Press*, No. 337, The Hague, December 1961, quoting a Parliamentary statement by the Minister of Finance). In the United Kingdom profits and other property income per unit of output have been falling since the beginning of 1960, but in Sweden, on the other hand, they have as yet fallen remarkably little (see *The Swedish Economy*, *op. cit.*, November 1961, p. 49).

⁷⁷ *Treasury Bulletin for Industry*, January 1962. Wage rates have risen by only 1½ per cent since July and there have been no new major settlements in the winter of 1961/62. Labour costs also rose slightly in the second half of 1961 because productivity fell. If present tendencies continue, the rise in labour costs in 1962 might not exceed 1 to 1½ per cent. (See *National Institute Economic Review*, February 1962, for the specific assumptions on which this estimate is based.)

one on which there is already a considerable literature.⁷⁸ In this connexion, however, recent developments in some countries are of interest. In the Netherlands, which has a tradition of tripartite national wage agreements, a formula has been adopted for 1962 providing for increases in wages directly related to the long-term rise in productivity.⁷⁹ As part of the same settlement, employers have agreed to offset from profits extra wage payments to cover the planned increase in rents in July.

In the United Kingdom, the Government called for a wage pause in July 1961, as a temporary measure pending elaboration of longer-term proposals to deal with the problem of rising prices. The pause has on the whole been respected, though not without some cost in terms of labour relations, and, as an intermediate stage, a greater degree of flexibility in adjudicating wage claims will be tolerated officially from April 1962. The Government has set up a National Economic Development Council, including representatives of industry and the trade unions, whose main task is to draw up long-range policies for economic growth and, *inter alia*, for limiting the rise in money incomes. In the shorter term, the authorities have recommended that the rise in average earnings in 1962 should be limited to 2 or 2½ per cent—equivalent to the estimated increase in national output per head—and various means of achieving this objective have been suggested.⁸⁰ One such proposal is for devising a formula which "would do justice to those in employment where productivity cannot be measured, while taking some account of actual increases in productivity where they can be ascertained".⁸¹ In France there are to be consultations each autumn, under the auspices of the National Planning Council, between the Government, employers, and the unions—the object being to review wage claims with reference to estimates of the growth of national income. A similar procedure is being adopted by the joint price-wage commission in Austria.

⁷⁸ See, for example, *The Problem of Rising Prices*, OEEC, Paris, 1961, especially Appendix 4.

⁷⁹ The limit (*i*) within which wages may increase in 1962 (or equivalent improvements in working conditions take place) in any particular industry is calculated as follows:

$$i = \frac{3a + 2}{4}$$

where *a* is the average annual long-term productivity increase in that industry (as a rule over nine years) and 2 represents the anticipated percentage increase in productivity for the economy as a whole in 1962. Hence, in industries where productivity rises more than the anticipated national average of 2 per cent, wage increases will be slightly less than the increase in productivity; and, in sectors where productivity rises less than 2 per cent, wage increases will be slightly higher than the increase in productivity.

⁸⁰ The considerations relating to a policy for wages in the intermediate period are set out in *Incomes Policy: The Next Step*, Cmnd 1626, HMSO, February 1962.

⁸¹ Letter from the Chancellor of the Exchequer to the Trades Union Congress (*The Financial Times*, 11 January 1962).

Apart from the currency revaluations in western Germany and the Netherlands, which have helped to relieve the pressure on resources, there have been few innovations of policy designed to keep demand and supply in balance. Changes in the field of credit or fiscal policy have been mainly either a continuation — or, where judged necessary, a reinforcement — of measures already applied in 1960. In particular, interest rate policy has been used little. However, in Denmark the discount rate was raised in May 1961 to the unprecedented level of $6\frac{1}{2}$ per cent, following the rise in total incomes resulting from higher transfers to agriculture and the wage settlement in other sectors.⁸² In western Germany policy was reversed in November 1960 by lowering interest rates so as to discourage the inflow of short-term capital, despite the fact that higher rates would have been more appropriate to the monetary authorities' policy of preventing an "overheating" of the economy.⁸³ In the United Kingdom too, changes in Bank rate have been largely governed by external considerations.

Several countries reinforced credit control during the past year. In Norway, for example, when milder measures taken earlier in the year proved inadequate, banks were required in July 1961 to bring down the level of their advances, both for domestic reasons and to check the rise in imports; and a similar restraint on bank advances was reinforced in the United Kingdom in July. In Sweden a penal discount rate of 9 per cent was introduced for sums exceeding one-half of a bank's total assets, and liquidity ratios, though reduced for commercial banks, were more strictly enforced and extended to other credit institutions also.⁸⁴ Following warnings in September against an excessive expansion of credit, the Danish central bank decided to limit gradually, as from March 1962, advances to commercial banks against longer-term bonds. The minimum liquidity ratio of the commercial banks (*coefficient de trésorerie*) was raised in France from 30 to 32 per cent in January 1962, and similar measures were taken in the Netherlands. As from February 1962 credit restrictions have also been tightened in Austria.⁸⁵

⁸² In Belgium, the discount rate has been thrice lowered by $\frac{1}{4}$ of 1 per cent — a policy facilitated by the absence of tension on the domestic market — in order to bring it closer to rates prevailing in the EEC countries.

⁸³ In addition, minimum reserve requirements were repeatedly lowered with the object of preventing an excessive reduction in bank liquidity due to the surplus of the public sector and balance-of-payments developments.

⁸⁴ Liquidity in the economy was also reduced by the State budget surplus and by the priority given to housebuilding, which limited the availability of credits for industry.

⁸⁵ Penal discount rates and minimum reserve ratios have been raised; commercial banks are now required to finance nearly half of the central bank's advances to the Treasury in the form of one-year Treasury certificates, and their new deposits can be used for loans only to the extent of 50 per cent instead of the former 75 per cent.

Save in the United Kingdom, fiscal policy has not been widely used to skim off increases in consumers' purchasing power, although in Norway, following a tightening of hire-purchase conditions in July and the steep increase in imports since they were liberalized, the import tax on cars was raised in November 1961. In some countries envisaged reductions in taxes have had to be postponed in the interests of maintaining internal balance. One example is the further postponement in the Netherlands, until July 1962, of tax reductions first envisaged for mid-1961. In France the temporary surtax — the *taxe complémentaire* — was to have been abolished in 1962 as part of the fiscal reform of 1959, but it has in fact only been reduced, partly because of higher budgetary expenditure on agricultural support. In western Germany also the 1962 budget had to postpone the awaited reductions in the tax burden, largely because of increases in defence expenditure. Thus a conflict has sometimes arisen between longer-term aims of fiscal policy and the needs of the moment, and in the Netherlands it is considered impossible to postpone the tax reductions beyond 1962.⁸⁶

Increased defence expenditure, as planned in the Netherlands in 1962, or higher transfer payments, such as have been made in Denmark, France and Norway to the agricultural sector, have been or will be financed partly by additional indirect taxes. Charges for public services, such as passenger transport, have been raised, as an alternative to increased subsidies.

Occasionally credit and fiscal policy has been reinforced by more direct controls. Direct control of building is still used and has been further tightened in several countries, notably the Netherlands.⁸⁷ Price control was introduced or reinforced in Norway in January 1962, manufacturers' prices being frozen at their November 1961 level,⁸⁸ and in Austria agreement has been reached on strengthening the powers

⁸⁶ In the Netherlands taxes on married women's incomes were reduced in January 1962; while this means a small increase in consumers' disposable income, it is hoped to attract more women into gainful employment. As part of a wider tax reform, the general sales tax in Sweden was raised from 4 to 6 per cent in January 1962. This was largely offset by reductions in income tax and higher children's allowances. On the other hand income-tax reductions are to be allowed to enterprises which do not draw in 1962 on their investment funds, blocked as a result of earlier restrictive measures for two years and unfrozen at the end of 1961.

⁸⁷ In July 1961 a complete prohibition on starts of private dwellings was imposed, the average monthly number of licences issued having risen from about 160 in the first half of 1959 to 1,200 in 1960.

⁸⁸ Exemptions were allowed for exports and domestic produce of agriculture, forestry and fishing, and for imported commodities where the increase in price results from higher import prices or from indirect taxes.

In Denmark price developments since the rise in incomes in the spring of 1961 have been reviewed, but no administrative action has followed; much of the rise in industrial costs appears to have been absorbed by profits.

of the Joint Price-Wage Commission. A general price order was issued in the Netherlands for imported goods in December 1961, since it appeared that prices of finished products, in particular, had insufficiently incorporated the price reductions effected by revaluation. None of these measures, of course, despite their usefulness in the short run, are cures for the fundamental causes of pressure on prices and costs.

The chief concern of the southern European countries is naturally with more general problems of economic development, and in Spain and Turkey with the resumption of economic growth after a period of stabilization. Policies and economic developments in these two countries, as in Greece and Yugoslavia, were reviewed at some length in the previous issue of the *Bulletin*.⁸⁹ In spite of a poor harvest, the partial economic revival in Spain noted in that *Bulletin* seems to have since become more general, owing mainly to rising expenditure by the public sector, but private investment and consumption have also shown signs of revival. The budget, however, in spite of efforts to channel back funds to the private sector, returned an unexpected surplus in 1961, instead of the planned balance, chiefly on account of an under-estimation of customs revenue. For 1962 the public sector is for the first time deliberately running a deficit, with public investment rising by about one-third. In Greece, too, budget-financed public investment, which increased by about 30 per cent in 1961, is to rise by a further 20 per cent this year; and investment by the public corporations is also intended to rise appreciably. A poor harvest in Turkey has necessitated imports of wheat, and activity in the private sector — for both consumption and investment — still appears to be slack. There, too, the budget — which has been drawn up in connexion with the interim plan for 1962 — will be expansionary, with budget-financed and other government investment set at about 13 per cent more than in 1961.

The Italian economy

Between 1957 and 1961 the gross national product of Italy rose in volume by an annual average of over 6 per cent, and industrial production by 9 per cent. Exchange reserves, which at the end of 1957 were equivalent to less than five months' imports, have risen continuously and now stand at over \$3 billion — or the value of eight months' imports.⁹⁰ Reserves rose particularly fast in 1958 and 1959 (by about \$900 million per year), because of unusually small deficits on the balance of trade; and the gain was also large in 1961 owing to stock movements in the

⁸⁹ Vol. 13, No. 2, section 10.

⁹⁰ In this note exchange reserves include not only official reserves of the central bank and treasury but also the foreign exchange holdings of the commercial banks.

TABLE 12
Italy's balance of payments in 1954 and 1960

Millions of current dollars

	Year	Credit	Debit	Balance
1. Goods	1954	1 582	2 231	—649
	1960	3 572	4 201	—629
2. Services	1954	700	444	256
	1960	1 810	1 153	657
<i>of which: Tourism</i> . . .	1954	156	18	138
	1960	642	92	550
3. Goods and Services — total (1+2)	1954	2 282	2 675	—393
	1960	5 382	5 354	28
4. Unilateral transfers ^a . . .	1954	336	17	319
	1960	333	19	314
<i>of which: Emigrants' re-</i> <i>mittances</i>	1954	74	—	74
	1960	204	—	204
5. Current balance — total (3+4)	1954	2 618	2 692	—74
	1960	5 715	5 373	342
6. Capital movements ^b . . .	1954	—98	—250	152
	1960	—119	—499	380
<i>of which: Investments</i> ^c .	1954	5	—50	55
	1960	—144	—445	301
7. Change in foreign exchange reserves (— = increase)	1954	—93	—38	—55
	1960	—538	—78	—460
<i>of which: Official</i> . . .	1954	..	..	..
	1960	—127	—	—127
Commercial .	1954	..	..	..
	1960	—411	—78	—333
8. Errors and omissions . . .	1954	..	..	—23
	1960	—252	10	—262

Sources: Bank of Italy, annual reports for 1955 and 1960.

^a Includes intergovernmental aid.

^b A negative sign indicates, under credits, an increase in foreign assets held by Italian residents and, under debits, an increase in Italian liabilities to foreigners.

^c Mainly private.

economy and a perhaps exceptional inflow of capital.⁹¹ The prospect is that Italy will continue to earn a regular current surplus on the balance of payments and to add to its reserves of foreign exchange.

The changes in the balance of payments between 1954, when reserves began to mount, and 1960 — two years in which both the current and capital accounts were relatively free from exceptional influences — illustrate the principal features of this development (see Table 12). They are the constancy of the visible

⁹¹ In 1958 imports declined in volume, and more in value, because of the lull in industrial production; but the recovery of exports in 1959 preceded the re-stocking, which lasted well into 1960.

trade gap, combined with a marked improvement in net income from invisibles (particularly tourism), so that the deficit on goods and services in 1954 has now turned into a small surplus. But thanks to a steady income in the form of unilateral transfers (the sustained rise in receipts from emigrants' remittances offsetting a fall in intergovernmental and other transfers) the balance on current account was only slightly negative even in 1954 and had turned into a regular surplus by 1957.

Since 1954 the deficit on commodity trade has fluctuated only slightly, around a total of some \$700 million (apart from the exceptions noted above). The fact that exports have risen even faster than imports (at an annual rate of 14 per cent since 1954) is a striking tribute to the growing competitiveness of Italian industry, which has provided 85 per cent of the total increase in exports.⁹² The progress of industrial exports owes much to the pre-war existence of an industrial base in northern Italy — even though high-cost and relatively inefficient as a result of the autarkic policies then pursued. Since the war, arrears of modern technology have been made good, and the rationalization and modernization of industry have permitted a considerable increase in labour productivity and a high return to capital input.⁹³

Industrial exports have also been favoured by a relatively easy labour market and low wage costs. While low average industrial wages are merely one aspect of lower per capita incomes and a more abundant labour supply than in most industrial countries of western Europe, this relative advantage of Italian industry has apparently not been offset by a significantly lower level of labour productivity. It appears that, at least in the still small but rapidly growing modern sector of industry, the efficiency of operation is no less than in other industrial countries. Labour costs per unit of output have indeed fallen since the early postwar years, and though shortages of certain skills are now appearing, Italy seems unlikely to lose completely its present relative labour-cost advantage in the near future.⁹⁴

⁹² Of this increase in industrial exports, engineering and chemical products accounted for some two-fifths.

⁹³ See Part 2, Chapter III, of the present SURVEY (to be published later this year).

⁹⁴ Since the comparison with other countries relates to industrial costs and not to real incomes, it is preferable to use actual exchange rates rather than "purchasing-power parity" ones. For comparisons of this kind, see *Labour Costs in European Industry*, ILO, Geneva 1959, and *Etudes et Conjoncture*, 1955, No. 5, p. 454 *et seq.*, and 1960, No. 3, p. 212 *et seq.* For comparative labour costs in steel production in the ECSC countries, see Office statistique des Communautés européennes, *Statistiques sociales*, Nos. 2 and 3, 1960. The second French inquiry referred to above suggested that labour costs in manufacturing in 1959 in Italy and the Netherlands were 15 to 20 per cent lower than in France. Costs in other countries of western Europe ranged from 5 to 50 per cent higher than in France. As can be

Although the longer-term outlook for Italian exports obviously depends on many factors, there is little doubt that net agricultural imports will tend to increase as a result of rising demand for livestock produce. Even if domestic output is raised appreciably, requirements of imported feeding-stuffs are bound to rise also, so that total agricultural imports are likely to exceed the prospective growth of exports of fruit and vegetables, which meet strong competition from other countries. However, these tendencies should not weaken the Italian payments position in the coming years, so long as receipts from invisibles and industrial exports continue to increase.

Net income from emigrants' remittances and tourism rose from \$63 million in 1949 to \$210 million in 1954, and to as much as \$750 million in 1960. It is the expansion of this income that has eliminated the deficit on current account since 1957. Although the rate of emigration may slow down in the near future, remittances should go on rising, at least until such time as whole families emigrate, rather than individuals (as may occur when there is complete freedom of movement within the European Economic Community). And rising incomes and the increasing propensity in other countries for foreign travel presage growing revenue from tourism.

A further contribution to the increase in exchange reserves has been the inflow of long-term (mainly private) capital, which even in 1961 largely exceeded the outflow.⁹⁵ The balance of capital movements in the future cannot be predicted with any certainty; to the extent that it consists of direct investment in productive enterprises — even if it outstrips foreign investment in Italy — Italian investment abroad should promote Italian exports. Thus the current balance of payments may continue to show a surplus, and exchange reserves may increase further, unless specific countervailing measures are adopted.⁹⁶

seen from the following table, labour costs in Italian industry have risen less than labour productivity during the fifties:

Annual compound rates of growth (percentages)		
	1954-1959	1950-1959
Labour productivity:		
Per man	5.8	7.2
Per man-hour	..	7.0
Wage rates ^a	4.3	4.6
Hourly earnings	4.8	5.5
Average daily labour costs ^b	4.4	5.4

Sources: For wage rates and earnings — official statistics; for labour productivity — Part 2 of this SURVEY (to be published later this year), Appendix Table I; and for average daily labour costs — Confederazione Generale dell'Industria Italiana, *Annuario 1961*, pp. 211 and 212.

^a Excluding family allowances.

^b Includes all social security and similar payments by employers.

⁹⁵ Italian investment abroad has been expanding faster than foreign investment in Italy, but Italy is still a net importer of capital. For the period January-September 1961, see *Movimento Valutario*, No. 3, 1961.

⁹⁶ The annual rate of growth envisaged for the next five years of Italy's gross national product is reported to be about

External equilibrium has been reached much earlier than was officially expected.⁹⁷ This achievement should not, however, be viewed in isolation. Industrial progress, hastened by the liberalization of imports, has placed Italy among the leading industrial nations of the world. Yet notwithstanding the policies of developing the south and modernizing agriculture, the fruits of this progress have been unevenly distributed. Industrial development has drawn labour and capital to the northern provinces, where a nucleus of industry already existed; and this has resulted in some respects even in a widening of regional and other disparities. Economic expansion has as yet left certain economic and social problems unresolved, though it has no doubt helped to provide the means for their solution. In particular, the movement of population, and the relative neglect of the social amenities — in the broadest sense — that the public sector must provide, have created the need for large-scale investment in, for example, town planning, public transport, and, above all, in educational building of all kinds.⁹⁸ Apart from the broader social implications of this uneven development, further industrial progress itself could be hampered, and costs increased, if these aspects of the Italian economy go by default.

The French economy

Economic developments from 1959 to 1961

From having virtually exhausted its exchange reserves in 1957, France entered 1962 with a reserve of almost \$3 billion. In the meantime it had repaid all the debt incurred during the stabilization period, liquidated its liabilities under the European Payments Union, and participated in the IMF's grant of assistance to the United Kingdom in July 1961. The transformation of the French external accounts has been such that short-term foreign assets now more than cover even long-term liabilities. Besides accumulating reserves rapidly, since it emerged from the stabilization period late in 1959 France has attained annual rates of growth of domestic product among the highest in western Europe.

In both 1958 and 1959, however, the gross national product had been scarcely higher than in 1957 (the final year of the preceding phase of rapid economic expansion), for domestic demand had been restricted with the aim of restoring price stability and balance-of-payments equilibrium. Per capita private consump-

tion in fact declined slightly. The favourable effect of devaluation in a period of resurgent world trade and the contraction of domestic demand jointly yielded a marked improvement in the balance of trade in 1959, when commodity exports rose by as much as 25 per cent in volume and imports declined 2 per cent. At the same time, the exchange reform led to the repatriation of a considerable volume of French capital as well as attracting foreign capital, so that official exchange reserves increased by about \$1 billion, even after repayment of more than \$200 million to the IMF during the year.

Hence, by 1960 the growth of private consumption and investment could be resumed without prejudice to the continued expansion of exports. Gross national product rose in 1960 by over 6 per cent in volume, exceeding the plan target of 5.5 per cent, owing partly to the good harvest. Exports remained the most dynamic component of final demand, but both private consumption and private investment increased — with the latter, as foreseen, rising faster than consumption (6 and 5 per cent respectively). Private consumption, and economic activity in general, were stimulated both by a relaxation of credit restrictions, lower interest rates, and an easing of hire purchase conditions, and by a rise in disposable incomes. Industrial wages went up by some 8 per cent (and employment 1 per cent), while the good harvest boosted farm incomes.⁹⁹ Transfer payments also increased as earlier cuts in social services were restored.

Imports were progressively liberalized and rose by 20 per cent in volume in 1960 to meet higher domestic demand (partly for restocking); but the rise in total resources of some 7 per cent was made possible chiefly by the fuller use of industrial capacity and labour, and by very good yields in agriculture. Exports rose rather more than expected (14 per cent in volume, including net income from services, compared with the 4 per cent forecast) so that there was again a large surplus on goods-and-services account.¹⁰⁰ There was a further inflow of private long-term capital, this time consisting mainly of direct investment.¹⁰¹ Notwithstanding advance repayments of official debt of almost \$500 million, the exchange reserves rose during 1960 by

⁹⁹ For estimates of factor incomes generated in agriculture, see *Etudes et Conjoncture*, September and December 1961.

¹⁰⁰ According to official estimates on a cash basis (settlements recorded) the surplus was \$717 million in 1959 and \$637 million in 1960. Allowing for the actual movement of commodity trade in the two years, and the probable over-estimate of the surplus in 1959 because of changes in the terms of payment (leads and lags) resulting from devaluation, it seems that the true surplus was just over \$500 million in 1959 and more than twice this amount in 1960. (See OEEC, *France, 1961*, Paris, August 1961, p. 28.)

¹⁰¹ France was not affected by the large-scale speculative movements of short-term capital occurring in late 1960 and early 1961.

5.5 per cent. It is believed that this rate will not cause any strain on the balance of payments.

⁹⁷ 1964 was the date envisaged in the Vanoni plan.

⁹⁸ Specific programmes for schools, railways and river control have recently been submitted to Parliament, but are not yet enacted; but the "Green Plan" for agriculture, covering the period 1961 to 1965, has been ratified.

another \$350 million. Economic expansion during the year was accompanied by fairly stable industrial prices, but retail prices rose by more than 3 per cent, mainly due to price support for agriculture and to increases in rents and other services. Almost all industries still had unused capacity resulting from previous investment and stagnation of output; but with employment and working hours again at normal levels, shortages of skilled labour appeared in some areas.

During 1961 labour became scarcer, industrial earnings continued to rise faster than output, and pressure on prices and costs increased. Gross national product is estimated to have grown in volume by almost 5 per cent—just short of the 5.5 per cent foreseen in the interim plan. Agricultural output probably barely exceeded the record 1960 level, and, according to the INSEE index, industrial output rose by some 6 per cent, against 11 per cent in 1960. Expansion slowed down mainly in the industries producing basic materials such as steel and chemicals, as well as in the textiles and food-processing branches; and, owing to weakening home and export markets, output of motor cars was one-tenth below that of the previous year. The rise in total exports of 5 per cent was well below the exceptional increase of 1960 and, in contrast with previous years, was not significantly faster than the growth of national product.¹⁰² Private consumption appears to have risen less than the 5.5 per cent anticipated in the budget estimates of last September. Although earnings in the private sector went up by at least 9 per cent during the year, the personal savings ratio may have increased in the first half, and in the second half real earnings rose no further, owing to increases in the cost of living. On the other hand, private investment, according to the INSEE inquiry of November 1961, increased by some 15 per cent, and there was also a steep rise in general government investment.

The slightly faster rise in prices in 1961 was only to a limited extent due to the pressure of costs, and the increase of over 4 per cent in retail prices in the second half was accounted for primarily by concessions to agriculture.¹⁰³ These concessions were financed in part by higher food prices and in part from the budget; but, in order to maintain budgetary equilibrium, some indirect taxes were increased and passenger transport charges allowed to rise, to avoid an increase in the exchequer subsidy. But the rise in the price level was sufficient to require the first increase in the minimum guaranteed wage since October

1960.¹⁰⁴ This increase in wage rates follows a clear tendency for industrial earnings to rise faster than productivity, the government's plea in March 1961 to limit increases in earnings in the private sector to 4 per cent having met with little success. With still stronger demand for labour this year, and the claims currently being pressed for equality of treatment in the public sector, where wages have lagged behind, the maintenance of relative stability of prices and costs will remain a central concern of policy in 1962.

During 1961 official foreign exchange reserves rose by a further \$870 million. The inflow of private capital continued to grow, but the effect on the reserves was again largely offset by the prepayment of some \$300 million of outstanding EPU debt and lending through the IMF. The balance of invisible items (at least during the first nine months, for which data are available) worsened slightly. That the current surplus of the franc area was more favourable than in 1960 is due primarily to the record surplus in commodity trade between France and countries outside the area, since exports rose by 11 per cent and imports by only 7 per cent. The growth of imports was facilitated by further measures of liberalization and by two tariff reductions of 5 per cent on industrial products, anticipating scheduled Common Market reductions, but extended to other countries also.

*Prospects and the plan for 1962*¹⁰⁵

France, on the threshold of its new four-year plan (1962-1965), has set itself the task in 1962 of maintaining the same rate of growth as in the past two years in the face of three uncertainties: whether, until greater numbers of new entrants gradually arrive on the labour market as from 1963, productivity can be raised by enough to achieve the output targets; whether pressure in the labour market and other factors, such as agricultural support, will permit continued expansion with relative price stability; and whether (a matter depending partly on price stability) exports can continue to grow as fast as before. Export prices since the end of 1958 have risen broadly in line with domestic industrial prices and it would not be surprising if some part of the earlier gains from devaluation had been lost.¹⁰⁶ On the other hand, there is nothing to suggest that French export prices are

¹⁰⁴ It is most likely that industrialists were influenced by the knowledge that the minimum wage was to be raised when they stated last October in rather greater numbers than last June (and even more than last March) that they expected a rise in wages significantly greater than in previous months. (*Bulletin hebdomadaire de statistique*, 16 December 1961.)

¹⁰⁵ *Projet de loi de finances pour 1962: comptes prévisionnels de la nation pour 1961 et principales hypothèses économiques pour 1962*, Paris 1961.

¹⁰⁶ Between the fourth quarter of 1958 and the third quarter of 1961 export prices for industrial products rose 17 per cent, and domestic prices of industrial products 16 per cent.

¹⁰² Exports to countries outside the franc area rose by 11 per cent in value, but there was a decline of 8 per cent in exports to the rest of the franc area.

¹⁰³ For details see *Economic Bulletin for Europe*, Vol. 13, No. 2 (section 8).

not competitive; costs in other countries have been rising no less, and perhaps faster. Increased sales of agricultural produce did much to raise exports in 1961, assisted by public subsidies; the rise in exports of manufactures during the last two years has been moderate, in spite of the continued expansion of world trade.¹⁰⁷

A further rise in prices is perhaps less likely to be provoked by general pressure on resources, including manpower, than by the development of an inflationary atmosphere; in other words, the risk is that an accelerated rise in the price level, from whatever cause, will breed expectations of further rises to come, thus weakening cost-consciousness. Although labour shortages are now more common and may sometimes prevent the full utilization of capacity, only two-fifths of industrial enterprises stated in a recent inquiry that they could produce no more with existing resources (including labour); and, in view of past and expected additions to capacity, the emergence of excess domestic demand seems unlikely unless incomes rise sharply. Still, following the expansion of credit in the past two years (facilitated by the balance-of-payments surplus) and after a warning last November, the precautionary measure was taken of raising the Treasury coefficient (i.e. the commercial banks' minimum liquidity ratio) from 30 to 32 per cent as from February 1962.

The plan for 1962 provides for an increase in gross domestic product of 5.5 per cent — the same target as for 1961.¹⁰⁸ Since resources, and manpower in particular, are now more fully utilized and the future of export demand is uncertain, the attainment of this rate of growth would be an impressive achievement, entailing further important progress in labour productivity. Even though exports (including net income from services) are again expected to rise more slowly than imports, a surplus on the current balance of payments is anticipated. Clearly, however, a shortfall of exports need have no adverse effects on the growth of output, provided that the primary cause is overseas demand rather than the pull of the home market and so long as exchange reserves are high. With advance planning, it should be possible, for example, to compensate for any shortfall in exports by an even bigger programme of public investment (if the necessary labour is available), and by stimulating dwelling construction.

¹⁰⁷ During the first nine months of 1961 French exports of manufactures rose by only 2.2 per cent compared with the same period of 1960 — one of the smallest increases among industrial countries. (*Board of Trade Journal*, 12 January 1962.)

¹⁰⁸ Gross fixed investment (other than housing) and exports are counted on to increase faster than the growth of national output, but investment is to rise at a slightly slower rate than in 1961, and exports rather faster. The inquiry referred to above suggests that the increase in investment in private industry will indeed be below that achieved in 1961.

*The plan for economic and social development, 1962-1965*¹⁰⁹

The foregoing remarks on the objectives of the first year of the four-year plan are, in general, equally valid for the whole plan period. Between 1961 and 1965 the annual growth of domestic product is set at 5.5 per cent, or 4.6 per cent per head of population. This compares with an average during the fifties of 4.5 per cent (and 4 per cent per capita). Although the ambitiousness of the plan is recognized by the French planners, its targets are believed to be feasible (so long as the assumptions on the allocation of the increase in product to end-uses are respected) without straining resources or upsetting external equilibrium.¹¹⁰ Given the modest increase foreseen in the industrial labour force, the anticipated rise in industrial output implies a continuation of past high rates of growth of labour productivity. The total increase in the labour force will be slow (under 1 per cent a year), and of the total assumed addition to the non-agricultural labour force of some 7 per cent, less than one-third is allocated to industry and the remainder to the service sectors. Nearly one-fifth of this increase in the active population outside agriculture is assumed to come from a (still problematical) reduction in the length of military service, whereas migration from agriculture itself is not expected to provide more than 270,000 additional persons, implying a rather slower exodus than the annual rate of 100,000-110,000 in the years 1956-1961 and one slightly below even the planned rate for that period of 80,000.

It is manifestly the agricultural sector, and the importance for the balance of payments of its surpluses, which constitutes the weakest link in the plan chain. The target for the growth of domestic product assumes an annual increment in agricultural output of no less than 4.5 per cent — a rate which does little more than acknowledge the steady increases in yields which accompany technical progress. It is hoped to raise domestic consumption by much-needed investment in the food-processing industries and in the distribution system so as to lower retail prices, and this aim is given greater priority than investment that will lower producers' prices (but not their income) directly by means of cost reductions; but it is recognized that there may be substantial surpluses, notably of wheat and dairy produce, which can be

¹⁰⁹ Assemblée nationale, première session ordinaire de 1961-1962, *Projet de loi portant approbation du plan de développement économique et social*, Paris, November 1961.

¹¹⁰ Fixed investment is to rise from 20 per cent of total resources in 1961 to 22 per cent in 1965. Much emphasis is laid on social and other "collective" investment (such as education, research, urban and rural development, etc.), which is to rise by 50 per cent and absorb one-fifth of the total increase in investment resources.

exported only with the help of subsidies.¹¹¹ (It is hoped to minimize these, however, by exploitation of the price advantage that many French producers should enjoy in the EEC common market for agriculture, as internal barriers are progressively dismantled.) Moreover, the prospects could be adversely affected by any subsequent widening of the EEC to include other exporters, such as Denmark, as well as by external pressures on the Community to hold the general level of agricultural protection to a minimum.

Without the export of agricultural surpluses the external balance of the economy could be seriously upset; but the risk remains that external balance may be achieved only at the expense of internal disequilibrium on account of rising agricultural support.¹¹² The authorities hope to limit the need for support by encouraging the production of commodities such as beef, fruit and vegetables for which domestic demand is more promising, but this is no lasting solution.¹¹³

¹¹¹ A rise in exports of cereals by 50 per cent between 1960 and 1965 is envisaged.

¹¹² The increase in the surplus on visible trade between 1960 and 1965 of \$460 million is based on the assumption that exports of agricultural produce will increase by half. Without an increase in agricultural exports, the balance of visible items could even be in deficit. The balance of invisible items is in any case assumed to fall (from \$580 to \$310 million), mainly because of lower net receipts from tourism. Hence the assumed improvement in the current balance of payments of \$190 million could be elusive if the export objectives for agricultural produce are not achieved.

¹¹³ Cf. the discussion on agricultural policy in the *Economic Survey of Europe in 1960*, Chapter III, sections 2(c) and 4(a).

It is important that such efforts, intended to change the pattern of production so as to lighten the budgetary burden of protection, should not involve the neglect of attempts to bring down production costs to a competitive level in the long run and so provide a satisfactory income for a smaller farm population.

(b) The economic outlook for western Europe

Demand

There is every prospect that economic growth will continue in 1962 — in most countries at a pace similar to that of last year, and with a slight lessening of pressure in the labour market. At least, this is the conclusion to which the earlier analysis of the development of demand and examination of national budgets or plans led. National estimates for 1962 are assembled in Table 13. It can be seen that in the Netherlands some recovery is expected from the unusually slow progress of 1961, as maturing investments reduce physical obstacles to expansion. In France, too, gross national product should grow rather faster than in 1961, if — in contrast with last year — the plan target is achieved. Conversely, the easing of demand pressure in western Germany, together with the likelihood of a smaller increment in the labour force, lead to official expectations that national output will rise less than in 1961.¹¹⁴ National forecasts for the Scandinavian

¹¹⁴ In the view of one research institute, demand factors will result in a loss of potential output of 1 per cent (see footnote 16).

TABLE 13

Supply and use of resources in 1961 and national forecasts for 1962 in certain western European countries

Percentage changes in volume from the previous year

Country	Year	Gross national product	Imports of goods and services	Gross fixed investment	Private consumption	Public consumption	Exports of goods and services
Finland ^a	1961	5	11	7	5		8
	1962	4	..	..	..		5-6
France	1961	4.7	6	7.5	5.5	3.5	4
	1962	5.5	7.5	6.5	5.5	4	6
Western Germany	1961	5.3	9	9 (12) ^b	7.5	6.5	4
	1962	4	..	.. (4) ^b	..	..	..
Netherlands	1961	2.5	7.5	7.5	4.5	3	4
	1962	4	4	7	4	4	4
Norway ^a	1961	4.5	11-12	10	5	3-4	8-9
	1962	4	2	0-1	3-4	5-6	7-8
Sweden	1961	4.7	1	3.5	6	5	4
	1962	3.5	5	3	3.5	6	6

Sources: National statistics, and direct communications from governments.

^a Including repairs and maintenance. The 1961 data for Norway are those of "revised estimates", on which the forecasts for 1962 are based, while the figures of Table I refer to "provisional results".

^b Equipment only.

countries suggest that total demand will roughly maintain the record pace of expansion of the past two years. Detailed official estimates for other countries are not published, but authoritative statements made recently in connexion with 1962 budgets indicate that an increase in national output of 3-4 per cent (i.e. smaller than in 1961) is expected in Austria, and one of about 4 per cent in Belgium. Thus, an increment of gross national product of the order of 4 per cent — and probably more in France and Italy — is the typical forecast for the industrial countries of continental western Europe. In the United Kingdom, however, where the increase in output in 1961 was less than 2 per cent, the rate of expansion is unlikely to quicken. Official statements implying that the restraint of demand will continue suggest an increase of perhaps $2\frac{1}{2}$ per cent in the United Kingdom, to which the public sector and, it is hoped, exports will contribute most.¹¹⁵ As observed above in section 3 (b), the state of the United Kingdom's balance of payments diminishes the prospect of any faster expansion there unless exports surpass the most optimistic expectations.

Among the various components of final demand, it seems that public consumption (including defence) will in most countries be at least as strong a source of expansion as in 1961, notably in Belgium, western Germany, Norway, the Netherlands and Sweden. Higher defence outlays are foreseen, for example, in western Germany and the Netherlands, as well as in the United Kingdom and France.¹¹⁶

Gross fixed investment, on the other hand, will probably be a less expansionary force than in 1961 in several countries, particularly western Germany; but only in a few (e.g. Norway and the United Kingdom, where hardly any increase is foreseen) will total investment demand rise no further. In most countries the volume of dwelling construction will probably differ little from that in 1961; but this, and any loss of momentum in private non-residential investment, should be to some extent counterbalanced by strongly rising public investment — for example, in the United Kingdom, France and Sweden, and perhaps Italy, as well as in less industrialized southern Europe. Investment intentions in several countries point to a continued

increase in private investment in industry, which may be further stimulated in all industrial countries by both labour scarcity (particularly in the Netherlands) and the need for rationalization. The latter inducements to invest may also counteract the dampening effect of a possible squeeze of profits resulting from a combination of rising costs and keener price competition.

Rising personal income in all countries, the product of higher wages and other factor income, as well as of greater social transfers (as in France, western Germany and Sweden), presages a steady increase in consumers' demand. Much less predictable, of course, is the impulse to total demand from exports.¹¹⁷ National forecasts anticipate at least as large an expansion of exports as in 1961 and in some countries (particularly the United Kingdom) even envisage a distinct improvement. All countries expect to increase their exports to the United States as a result of its resumed economic expansion. As observed in section 3 (a) above, intra-western European trade should continue to grow.

The foregoing remarks assume the continuation of present policies and that balance-of-payments difficulties will not require the restraint of aggregate demand. These assumptions seem well founded unless — and the chances have been diminished by the recent strengthening of the international credit system — speculative capital movements should again threaten the stability of the international payments system. Indeed, in countries, such as those of the EEC, which have a strong balance of payments, rapid expansion and rising imports from other countries afford the best assurance that world payments will not be upset.

Supply

A further assumption underlying the above reasoning is that the supply of goods and services can be increased so as to meet additional demand without excessive strain either on factors of production or on the current balance of payments. This raises the question whether the relative rates of expansion of employment and output experienced in 1961 may be expected to continue in the near future. Table 14 has been composed in an attempt to provide an answer; in it, rates of growth of the labour force and of gross national product in 1960 and 1961 (data for the latter are still highly provisional) are compared for the nine countries for which statistics are available. The figures suggest that the slower growth of gross national product in 1961 than in 1960 has been accompanied in most cases by a slower increase in employment, but that this deceleration has been much more pronounced for output than for employment (i.e. the advance of

¹¹⁵ See section 4 (a). Estimates for 1962 in the *National Institute Economic Review*, February 1962, imply an annual growth rate of national output of about 1.5 per cent in the two and a half years beginning mid-1960. This implies an increase over 1961 somewhat less than the official forecast.

¹¹⁶ Defence expenditure in the United Kingdom in the fiscal year 1962/63 will rise by about 5 per cent. An increase of nearly 10 per cent in 1962 is provided for in the Netherlands, and in western Germany the Federal budget for 1962 provides for a total increase in defence outlays of 30 per cent. (This figure may, however, as in the United Kingdom, include some transfer payments, as well as an allowance for changes in prices or in rates of service pay.) Defence appropriations in France for 1962 are 5 per cent above those for 1961.

¹¹⁷ Stock movements are perhaps more difficult still to foresee, and are certainly more volatile; they are therefore disregarded here.

TABLE 14

Investment ratios and labour productivity in selected western European countries, 1960 and 1961

Percentages

Country	Investment ratio ^a			Increase from previous year in total employment		Increase from previous year in GNP per person employed	
	1960		1961				
	Including dwellings	Excluding dwellings	Including dwellings	1960	1961	1960	1961
Austria	23.8	19.4	24-25	1.6	1.2	6.5	3.8
Finland	29.3	23.5	30	3.4	2.7	4.8	2.2
France	17.4	..	18	0.3	1.1	5.9	3.6
Western Germany . .	24.0	18.7	25	1.9	1.4	6.8	3.8
Ireland	13.4	..	14	—	..	4.1	..
Italy	22.9	17.4	24	2.5	2.1	4.3	4.5
Netherlands	23.8	19.5	25	1.7	1.8	6.3	0.7
Norway	28.2	24.4	29	1.0	1.1	5.0	4.5
Sweden	22.2	17.1	22	2.1	1.3	1.9	3.4
United Kingdom ^b . .	16.2	13.1	17	1.6	0.8	3.0	1.2

Sources : OEEC, *Statistical Bulletins — General Statistics* ; and national statistics.

NOTE. — Data for 1961 are provisional or partly estimated.

^a Ratio of gross fixed investment to gross national product at 1960 market prices.

^b 1961 data refer to the first three quarters and the corresponding period of 1960.

labour productivity was also slower).¹¹⁸ Even in Norway — and still more in France, where the growth of employment in 1961 was rather greater than in 1960 — the increment of labour productivity and of gross national product was nevertheless smaller.

To compare only 1960 and 1961, however, would be misleading ; for the rapid expansion of employment in 1960 was largely due to the absorption of unemployment — open or concealed — which persisted for some time during 1959, as a result of industrial stagnation in the early part of that year and during 1958. Similarly, the exceptional increase in labour productivity in 1960 was largely due to the fuller utilization of manpower and equipment. Yet the growth of national output in 1961 was in many countries quite high, even by comparison with the fifties. In the next few years — in other words, so long as the benefits in terms of manpower of high postwar birth rates last — it is therefore unlikely that the achievement of growth rates of national output such as those envisaged in 1962 will be hampered by labour scarcity.¹¹⁹

Moreover, as one of the fruits of the investment boom, shortage of physical capacity has seldom impeded economic expansion in the last three years ;

¹¹⁸ The labour supply in 1961 was affected in most countries by the beginning of the " bulge " in population of working age caused by the high postwar birth rate. (See *Economic Bulletin for Europe*, Vol. 13, No. 2, section 6.)

¹¹⁹ Western Germany — and possibly Austria — is an important exception. For recent estimates of future population of working age, see OEEC, *Demographic Trends 1956-1976 in Western Europe and the United States*, Paris, August 1961.

and, assuming a steady flow of demand, there is no reason to expect an inadequate level of investment in the foreseeable future. Hence, supply factors do not appear to be an obstacle to the maintenance of a high rate of economic expansion. Whether the tendency for the return to inputs to decline, observed in the late fifties, will continue depends on circumstances peculiar to each country, such as the timing and pattern of investment and the rate of technical progress ; and these are discussed in the second part of this SURVEY.¹²⁰

The United States economy

The greater economic strength and resilience won by western Europe in the last decade have lessened the direct impact of economic fluctuations in the United States on the economies of the region. Yet on at least three counts no appraisal of the economic prospects for western Europe would be complete without considering those for the United States. In the first place, western European countries look to the United States as perhaps the principal market in which their exports can be raised in 1962 ; in the second, continued expansion in that country is of utmost importance for overseas primary and other producers, and affects their imports from western Europe ; and finally, any weakening of the United States balance of payments which leads to a renewed substantial outflow of gold could result in a further

¹²⁰ *Economic Survey of Europe in 1961* : Part 2.

wave of speculative movements of short-term capital from which western Europe could hardly be immune.

Economic recovery in the United States since the trough of the recession in February 1961 has so far been free of any obvious pressure on prices and, apart from some hesitancy in the third quarter, due to slack buying by consumers and strikes in the automobile industry, the pace of recovery has been uninterrupted. The rise in national output in the fourth quarter of 1961 to a level (seasonally adjusted) 7 per cent above the pre-recession peak was stimulated by an upsurge in private consumption. However, although investment recovered sooner than in any previous postwar recession, the share of business investment in gross national product is at present still below the 1956-1957 level and beneath the Administration's expectations; and unemployment did not begin to fall until November.

The revival was assisted by a deficit on the federal budget for the fiscal year ending June 1962, which it is estimated will reach \$7 billion.¹²¹ The budget for the fiscal year 1963 (beginning July 1962) provides for an increase in federal expenditures of only \$3.4 billion (of which \$1.5 billion for defence), against one of \$7.6 billion in the fiscal year 1962 (of which roughly one-half for defence).¹²² On the assumption of a rise in national output of over 9 per cent in the calendar year 1962 from 1961, the federal budget would be roughly balanced. In that case there would be no further budgetary stimulus to the economy after mid-1962.

Prospects for the further growth of demand in the months ahead are good in all major economic sectors except exports. Latest estimates of private investment suggest an increase over 1961 of at least 8 per cent, and a continued rise in personal incomes should be largely matched by higher consumption. However, the rate of overall expansion may be slower than during the last quarter of 1961, and the outcome of negotiations for the renewal of contracts (which expire in June) in the steel industry will be crucial. Protracted talks, by increasing the possibility of a strike, could lead to a repetition of the 1959 experience, when heavy precautionary accumulation of stocks was followed by de-stocking during the marathon strike and inhibited a new phase of expansion. And as is so often the case, the level of consumers' expenditure on durable goods, especially cars, could be decisive.

The United States trade balance and the deficit of the balance of payments worsened, as had been expected, during the second half of 1961, as the

domestic revival swelled imports while exports were stable; but for the year as a whole there was an improvement on current account, and the "basic" deficit fell from \$1,870 million in 1960 to about \$600 million in 1961.¹²³ Having dropped to a seasonally adjusted annual rate of \$13.6 billion in the first half of the year, imports rose to \$15.4 billion in the second half — slightly above the average of 1959 and 1960.¹²⁴ Imports of raw materials were stimulated not only by re-stocking and mounting economic activity, but also by highly competitive import prices. Imports of manufactures also rose sharply, partly because of spare capacity and consequently low export prices for steel in western Europe (see section 2). There were also substantial imports of jet aircraft from France. Estimates by the National Foreign Trade Council imply that imports in 1962 will rise slightly faster — at about 12 per cent — than national output.

The recovery of exports (excluding military) in the second half of 1961 brought their total for the year to just above \$20 billion — i.e. 3 per cent more than in 1960. However, three-fourths of the increase in the third quarter was due to government-financed exports, including more heavily subsidized cotton. The outlook for exports in 1962 is uncertain and the forecast of the National Foreign Trade Council, which usually errs on the side of optimism, puts exports in 1962 at only \$20.5 billion, which would mean a worsening of the trade balance (excluding military) by some \$1.3 billion.

The inflow of foreign capital was resumed in the first half of 1961, but thereafter ebbed. The balance of official transactions improved appreciably, although mainly on account of advance debt repayment by western Germany in the second quarter. Nevertheless, owing to a renewed outflow of short-term capital in the fourth quarter, the total payments deficit in 1961 was \$2.4 billion — still a considerable improvement on the 1960 figure of \$3.9 billion. The resumed outflow of short-term capital, combined with the shrinking trade surplus, caused fresh losses of gold in the fourth quarter, which continued into early 1962. Consequently, more than 40 per cent of the 1961 deficit, even when the advance debt repayment is excluded, was concentrated in the last quarter of the year (when it was running at an annual rate of \$5.8 billion).

Various measures have already been taken, or are proposed, to cure the deficit of the balance of payments. These include stop-gap expedients, such as improved co-operation among central banks to counter-act hot money movements (and extensive intervention

¹²¹ This was considerably smaller than the deficit of \$12.4 billion incurred in the fiscal year following the 1958 recession.

¹²² Thus the tendency of recent years has continued for defence expenditure to absorb a declining share of the total budget and 9.9½ per cent of national product.

¹²³ For the distinction between the "basic" deficit and the Department of Commerce definition of the total deficit, see the *Economic Bulletin for Europe*, Vol. 13, No. 2, p. 45.

¹²⁴ The whole of the following discussion of the United States balance of payments is conducted in terms of seasonally adjusted data.

for the first time by the United States monetary authorities on foreign exchange markets), possible recourse to the expanded drawing rights with the International Monetary Fund, continued advance repayments of debt outstanding to the United States, and changes in the domestic interest rate structure which would narrow international differentials in short-term rates without discouraging domestic economic expansion by raising long-term charges.

Proposed long-term measures include bigger sales of military equipment to allied countries, the removal of special tax incentives to private investment in industrialized countries, and proposals for greater sharing with western European countries of defence and development aid expenditures.¹²⁵ Despite these various steps, the total balance-of-payments deficit in 1962 is still expected to be about \$3 billion; this figure would be reduced to the 1961 level, however, if negotiations on sales of defence equipment to western Germany succeed.

In addition to the above measures which directly affect the balance of payments, the Administration has stated its determination to foster more rapid domestic growth and to maintain the competitiveness of exports by means of continuing productivity gains and putting a halt to cost inflation. Re-training schemes for displaced workers and increased federal aid to depressed areas are envisaged, as well as tax allowances for investment in machinery and equipment. Less reliance is to be placed on monetary measures for dealing with pressure on prices, lest they also discourage investment.¹²⁶ It is hoped that an annual growth rate of 4.5 per cent can be achieved, so as to lead to "reasonably full employment" without inflation and reduce unemployment by mid-1963 to 4 per cent.

(c) Recent international developments bearing on prospects in the long run

The European Economic Community

On 14 January 1962 the Council of Ministers of the EEC unanimously proclaimed the entry into force

of the second stage of the Common Market; henceforth the transition to the third and final stages, respectively four and eight years hence, can be postponed only by unanimous resolution. The decision involved agreement under three heads: the principles of anti-trust legislation throughout the Community; equal pay for men and women; and — the biggest hurdle — a common agricultural policy. Negotiations between the EEC and the United Kingdom, on the latter's application for full membership, having marked time until the adoption of an agreed EEC policy on agriculture, are now in full swing, although no decision is likely before several months. Negotiations are also under way with Denmark and Ireland for full membership, and with Turkey for associate membership. Applications for associate membership have also been lodged by Austria, Sweden, Switzerland and Spain.¹²⁷

(i) *Tariffs*

Independently of the move to the second stage, intra-community tariffs on industrial goods were reduced by a further 10 per cent, bringing them down to 40 per cent below those ruling in the base period.¹²⁸ A further reduction of 10 per cent for industrial goods (to a total of 50 per cent) had been tentatively scheduled for the end of 1961, in advance of the original time-table, but was postponed pending the outcome of negotiations on a common agricultural policy.¹²⁹

Bilateral tariff negotiations have taken place between the EEC and the United States within the framework of GATT,¹³⁰ to compensate for the withdrawal of concessions previously granted under the national tariffs of EEC countries. Further, in exchange for the 20 per cent reduction in the common external tariff offered to all GATT members by the EEC on a reciprocal basis for most non-agricultural commodities other than certain chemicals,¹³¹ the United States agreed to

¹²⁷ For the agreement on the association of Greece, see *Economic Bulletin for Europe*, Vol. 13, No. 1, p. 14, and, for an unofficial English translation of the agreement, GATT document L/1601/Add.1, of 7 December 1961.

¹²⁸ The total reduction for non-liberalized and liberalized agricultural goods was respectively 35 and 30 per cent (30 per cent in both categories for western Germany). Quantitative import restrictions on industrial goods in intra-EEC trade were to have been completely removed by the end of 1961, but some are still in force.

¹²⁹ The question was considered at the March 1962 meeting of the Council of Ministers, with a view to implementing the reduction in July 1962.

¹³⁰ These negotiations were in two parts — the first under Article XXIV of the GATT and the second the so-called "Dillon round". For the background to these negotiations, see the *Economic Bulletin for Europe*, Vol. 13, No. 1, p. 16.

¹³¹ The first approximation of national tariffs to the common external tariff, at the end of 1960, had already been made on the basis of this reduced common tariff for most non-agricultural goods, but the reduction was subject to similar concessions by the EEC's GATT partners.

¹²⁵ For details and discussion of methods proposed for coping with the short- and long-term aspects of the United States payments deficit, see the remarks of the Honourable R. Roosa, Under-Secretary of the Treasury for Monetary Affairs, at the Joint Session of the American Economic Association and the American Finance Association, New York, on 28 December 1961, and of Mr. A. Hayes, President of the Federal Reserve Bank of New York, delivered before the New York State Bankers' Association in New York on 22 January 1962.

¹²⁶ For full details on the proposed long-term measures, see *Economic Report of the President, Transmitted to the Congress, January 1962*, United States Government Printing Office, Washington, D.C., 1962. The Annual Report of the Council of Economic Advisers (included with the Economic Report of the President) contains, *inter alia*, observations and proposals on overcoming cost-push inflation in the United States economy.

reduce tariffs on a smaller number of industrial items (notably cars) by 20 per cent on average.¹³² On trade in agricultural commodities (in which the United States' export stake in the EEC is at present more than \$1 billion per year, whereas it imports only about \$200 million), agreement was limited chiefly to those items that are not subject to variable import levies under the common agricultural policy.¹³³ For other products, such as cereals, rice, pork and poultry (of which feed grains account for more than one-half), the EEC was not willing to guarantee to the United States its "historic" share of the market, but negotiations on these items are to be resumed later.

The United States' desire at least to maintain its present level of agricultural exports to the EEC is dictated not only by its own surplus production, but also by the importance of such exports for its balance of payments. The EEC is already self-sufficient in sugar and dairy produce, as well as in pork; it is nearly so for eggs, beef and wheat, but not for feed grain. The Community will very probably develop export surpluses of some of these products (or output will grow faster than consumption, except for beef, thus diminishing the volume of imports from outside the area); to just what extent will depend greatly on the — still undecided — level of target and intervention prices (see below).¹³⁴ In this situation, and with the possible widening of the EEC to include other net exporters, it is scarcely surprising that the EEC Commission has been unwilling to commit itself at this stage to a given level of imports from either the United States or other temperate zone producers.¹³⁵ More importantly, the inclusion of the United Kingdom, the world's largest importer of food, could well (through the effect of the Community's import levies) divert some British food imports from third countries to EEC producers.

¹³² Current American legislation limits the Presidential power of reciprocal tariff reductions to an item-by-item basis. (For proposed legislative changes, see below.)

¹³³ The concessions granted to the United States cover exports to the EEC amounting to \$1 billion in 1960, in return for concessions by the former on imports amounting to nearly \$800 million. In the agricultural field agreement was reached on items comprising about three-fifths of United States exports to the EEC. They include cotton, soya-beans, raw hides and skins (all of which will continue to enjoy free entry), tobacco (on which the EEC common tariff is to be reduced), tallow, and most fruits and vegetables.

¹³⁴ For the present degree of self-sufficiency and possible changes in production and trade flows arising from a common market for agriculture, see the SURVEY for 1960, Chapter III, section 3. See also Department of Agriculture, Foreign Agriculture Service, *Impact of Common Market Proposals on Competitive Status of US Bread and Feed Grains in the EEC Area*, Washington, D.C., October 1961, and FAO/ECE, *European Agriculture in 1965*, Geneva, 1961.

¹³⁵ Following a French initiative, discussions have been taking place under GATT auspices for the orderly marketing of world cereal surpluses, including those of France, and a similar group has been set up for meat.

(ii) *The Common Market for agriculture*

The agreement reached in January 1962 on the principles for a common agricultural policy within EEC¹³⁶ broadly conforms to the proposals presented by the Commission in June 1960, in that there are to be target prices (and related intervention prices) above world market prices and assured by import levies or other means.¹³⁷ Although the controversial question of setting this price level has been left for future negotiation,¹³⁸ the method and time-table by which it will be achieved, as well as the related problem of financing the structural adjustments within the Community, were agreed. The Common Market for agriculture is to be established gradually over a period of 7½ years beginning on 1 July 1962. The end of the transition period (January 1970), will thus correspond to that at present foreseen for the non-agricultural sector, but the two schedules may be brought forward entirely independently one of the other.

Quantitative and all other trade restrictions on grains, pork, poultry and eggs are to be abolished by 1 July 1962 and replaced by variable levies, related to the difference between the import price on the one hand and the domestic (eventually the community-wide) target price on the other.¹³⁹ In addition, for the benefit of livestock producers, a fixed levy, which will eventually amount to 7 per cent, is to be imposed on imports of pork, poultry and eggs. Since it is envisaged that agricultural prices in the Community will be above world-market prices, levies on imports from third countries will be permanent, whereas those in intra-Community trade will gradually disappear as the various national guaranteed prices approach the common level. The first such price adjustments will not take effect before the 1963 harvest, before which a decision on the common price level must be taken.

¹³⁶ *Règlements, décisions et résolutions concernant la politique agricole commune, adoptés par le Conseil de la CEE le 14 janvier 1962 (texte provisoire)*, Brussels, January 1962.

¹³⁷ For a description and appraisal of the Commission's original proposals see *Economic Survey of Europe in 1960*, Chapter III, pp. 43-46, and *Agriculture, the Commonwealth and EEC* (PEP, Occasional Paper No. 14), London, 10 July 1961.

¹³⁸ However, it has been agreed that the common price will lie within the present range of members' guaranteed national prices. For wheat, barley and rye this sets roughly the French guaranteed domestic price as a minimum and the west German one as a maximum. For maize, the Italian price is set as the minimum, and no maximum price has been prescribed.

¹³⁹ For cereals (and presumably also for sugar and dairy products later) import levies will be calculated directly as the difference between the lowest c.i.f. price and the "threshold" price, which will be so fixed as to ensure that imported products will sell in each of the member countries' main deficit area at the predetermined target price. The levies for eggs, poultry and pork will be related to the target prices for feed grains by means of standard transformation coefficients that have been worked out to establish the amount of feed grains needed to produce these products. In effect, the import levies on the latter will simply offset differences in feeding costs within and outside the Community.

For fruit and vegetables there is to be a common external tariff by 1970, and in the meantime internal tariffs are to vanish by stages. Internal trade is to be regulated by controls of quality that are to be introduced gradually in the course of the next three or four years and will replace existing quantitative restrictions. Arrangements for beef, sugar, wine and dairy produce remain to be settled.

A general escape clause permits member governments to impose restrictions in the event of serious market disruption, but both the partner countries and the Commission must be informed, and the latter may reject or amend the measures taken within four working days of notification. In that case the requisite action must be taken immediately, even if there is an appeal pending to the Council.¹⁴⁰

The most complex problem confronting the negotiators, and the area where the agreement differs most markedly from the Commission's draft proposals, was the financing of the common fund. This fund is to take over the functions of the various national farm-support schemes and will stockpile surpluses or subsidize exports on a Community basis; but it is also intended to assist in the financing of structural changes, which "must help to reduce and approximate costs in the agriculture of the six countries and to guide production rationally in the light of market trends".¹⁴¹ The Commission's draft proposals had distinguished between an agricultural guarantee fund (*Fonds d'orientation et de garantie*), on the one hand, and a Structural Fund on the other; and the possibility of transfers from one to the other was limited.

The compromise provides for a single European Guidance and Guarantee Fund (*Fonds européen d'orientation et de garantie agricole*) to be financed from the Community's general budget. After the transition period this Fund will have exclusive responsibility for the financing not only of market interventions and restitution payments to exporters but also of those structural reforms "necessary for the smooth functioning of the common (agricultural) market" which will be determined by the Community.¹⁴² By the same token all levies on imports from third countries are to be paid into the Community's budget.¹⁴³ Thus, there is to be no direct link (in deference to the stand taken by western Germany, the group's biggest importer from outside) between import levies, on the one hand, and export subsidies and price stabilization, on the other.

¹⁴⁰ For grains the Commission's ruling may be held in abeyance for ten days if an appeal to the Council has been made.

¹⁴¹ EEC Commission, *Proposals for the Working-out and Putting into Effect of the Common Agricultural Policy in Application of Article 43 of the Treaty establishing the European Economic Community*. Brussels, 30 June 1960, p. II/6.

¹⁴² Translation from the French (*Règlement n° VIII relatif au financement de la politique agricole commune, texte provisoire*).

¹⁴³ Levies on intra-Community imports will have disappeared after the transition period.

Arrangements for the transition period have been fully settled only for the first three years (beginning 1962/63), during which the Fund will successively finance one-sixth, one-third, and one-half of the members' total outlays both on restitution payments to exporters and on market interventions. Thereafter, the share is to rise progressively until all such expenditures are borne by the Fund. The Fund's contribution to members' outlays on structural reforms during the transition period is to amount to as much as one-third, if possible, of its contributions towards market interventions and export restitutions.¹⁴⁴ The precise criteria of eligibility for all types of expenditure which will benefit from contributions by the Fund have still to be determined (or, if already agreed, may be annually reviewed) by unanimous vote of the Council during the second stage, and by qualified vote during the third stage.

The Fund's total resources during the transition period, and afterwards, are to be determined annually according to the normal budget procedure.¹⁴⁵ As a partial concession to the west German proposal that import levies be retained by each country to finance its own structural reforms, no such levies need be surrendered to the Community budget in the course of the first year, during which the Fund will be financed entirely from the Community budget, with national contributions as at present. In the following two years, successively 10 and 20 per cent of the Fund's income will be derived from members in proportion to their net imports from third countries, while the rest will continue to come through the regular budget. For the rest of the transition period, the breakdown of the Fund's income has still to be decided by a unanimous decision of the Council.

From the viewpoint of France, the compromise on the financing of structural reform and market stabilization entails a waiting period before it can expect Community support for those surpluses it cannot sell within the Community. Nevertheless the compromise includes the acceptance of the principle that levies should ultimately be used for Community rather than national purposes, and that the subsidization of French and other agricultural surpluses should be a Community responsibility.

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* *

To sum up the present position of the EEC vis-à-vis the rest of the world, the prospect that the Community will reduce the level of the common tariff on non-agricultural products by 20 per cent can, of

¹⁴⁴ The qualification "if possible" ("autant que possible") appears to be an implicit recognition that, at least during the transition period, a conflict may arise between the available Community resources and requirements for the common financing of structural reforms.

¹⁴⁵ That is, by a qualified majority of the Council.

course, be only beneficial to other countries. However, the outlook for temperate-zone agricultural producers, including those in Europe which are not associated with the EEC, is less promising, particularly if the United Kingdom becomes a member. The decisions of January 1962 confirm that, notwithstanding efforts towards structural adjustments in agriculture, the EEC market will be a protected one sustaining higher prices than those in the world market. How much higher — and, consequently, how much to the detriment of external suppliers — is a vital question that is still unanswered.

The proposed Trade Expansion Act

The Trade Expansion Bill now before the United States Congress foreshadows a radical departure from the trade legislation existing since 1934. If adopted, the Act would provide the President with considerably greater tariff-negotiating authority and could do much to promote the expansion of world trade.

First, the President could reduce or remove — over a period of at least five years — tariffs on goods of which the United States and the EEC together supply at least 80 per cent of world exports.¹⁴⁶ Such concessions would aim at mitigating, through reciprocal tariff reductions, the possible unfavourable effect on United States industrial exports of the establishment of the Common Market. It is also hoped to discourage the tendency for United States firms to circumvent the EEC tariff by establishing western European subsidiaries whose products are particularly competitive with direct exports from the United States.

Secondly, the existing authority to make reciprocal tariff reductions of up to 50 per cent on all goods would be enlarged to permit “across-the-board” reductions (by broad categories) instead of cuts for each separate item. Authority to make such reductions (over at least five years) would overcome the difficulty which United States negotiators at present experience in finding enough individual items of sufficient interest to each of the EEC countries to warrant a lowering of the common external tariff on such key items as transport equipment or to reduce the degree of protection accorded to wheat and other temperate-zone agricultural produce. It would become possible, for example, for the United States, in return for concessions granted to its agricultural exports to the EEC,

to offer concessions on a broad range of chemicals, exports of which from the EEC countries to the United States might be substantially increased if tariffs were reduced.

Finally, the proposed legislation would make possible the reduction or removal of tariffs and quantitative restrictions on tropical agricultural and forestry products from “friendly less developed countries”, without (in contrast with existing legislation) the need for reciprocity.¹⁴⁷

The “peril point” clause would no longer exist, but the present system, under which the Tariff Commission reports on the likely effects of a proposed tariff cut on employment and profits in the affected industry, would continue, and the “escape” clause would be maintained in a modified form.¹⁴⁸ Wide powers are being sought to facilitate the movement of labour and capital to more competitive industries from those that have been protected hitherto — by financing vocational training, extending schemes for displaced workers, establishing special unemployment benefits, etc. as well as by granting tax benefits and providing cheap credit and technical aid to tide enterprises over the adjustment period. *Temporary* tariff relief, however, may still be granted.

Any conclusions on the probable effect of the above proposals on United States and world trade are necessarily tentative. Some idea, however, of the maximum effect on imports into the United States can be derived from a recent official study of more than 5,100 commodities (excluding, however, textiles) in which imports were of some importance. According to this study, only 325 such items were held to be “sensitive” to competition from imports,¹⁴⁹ and imports of such items amounted to no more than \$1.7 billion in 1958, or one-ninth of domestic output.

The immediate gains for exports from the United

¹⁴⁷ However, it is intended to negotiate reductions of the EEC common tariff levied on such products. To the extent that primary-producing countries not associated with the EEC might, despite such reductions, still suffer from discrimination by the EEC in favour of its associated countries, it is hoped to preserve their share in world trade by providing increased export opportunities in the United States market. (The Council of GATT has approved the appointment of a Special Group on Trade in Tropical Products which will meet in the near future to consider ways of overcoming difficulties confronting less developed countries in the export of cocoa, coffee, tea, vegetable seeds and oils, and tropical timber.)

¹⁴⁸ Under the “peril point” clause, the President must justify before Congress any tariff reductions below a level considered perilous by the Tariff Commission (making such reductions extremely difficult in practice). Under the “escape” clause, tariff cuts already negotiated can be suspended or amended if the Tariff Commission finds that they have hurt domestic industries. But henceforth it would be necessary for the entire industry affected, and not just the plants producing the product in question, to prove substantial damage.

¹⁴⁹ Cf. *New York Times* (International Edition), 15 December 1961.

¹⁴⁶ United States trade with western Europe in these goods constitutes about 10 per cent of both total United States exports and total United States imports. They consist mainly of capital goods, such as transport equipment, construction and mining machinery and heavy electrical equipment, and of processed chemicals. Thus, exports of manufactures (particularly textiles) from low-wage countries would fall outside the scope of this provision.

States are likely to be small, since industrial exports consist largely of highly specialized products that are not very price-elastic. However, the United States may succeed in expanding exports to the EEC of those consumers' goods which are particularly suited for large high-income markets, and exports of mass-production machinery, in which it often enjoys a strong comparative advantage. Although the draft legislation has been submitted with the primary aim of resolving the trading problems of the United States in the new context of western European economic integration and of maintaining or increasing exports to that market, most-favoured-nation treatment would automatically

be extended to all other GATT countries. Moreover, to the extent that negotiations lead to a lowering of the EEC external tariff, imports into the Common Market from other non-European countries, such as Canada and Japan and Latin American countries, should increase, thus raising imports into these countries from the United States—their main supplier. In addition to provisions concerning tropical products, the proposed Trade Expansion Act—by promoting an expansion of world trade and faster economic growth—may contribute to increasing the volume of exports also of other products from the less developed countries.

5. NOTE ON YUGOSLAVIA

Supply and use of resources

Viewed against either the targets of the annual plan or those of the new Five-year Plan (1961-1965), 1961 was a disappointing year for Yugoslavia. The annual plan had foreseen a 12½ per cent rise in national income, and the Five-year Plan an average annual increase of 12½ per cent during the period; but in fact gross material product rose by only 5½ per cent, largely because farm output fell but also as a result of a rise in industrial output—and *a fortiori* of labour productivity in industry—by less than the planned margin (see Table 15).

1961 would, in any case, have been a year of rather difficult transition—the economy having to absorb the effects of the unification of exchange rates, revision of customs tariffs and of the foreign trade system in general, and a major readjustment of the domestic price structure intended to bring it closer to the pattern of world prices. As was noted in last year's SURVEY,¹⁵⁰ the 1961 plan had provided for accumulation of "resources" and an allowance for "errors and omissions" in the national expenditure account equivalent to about 5 per cent of planned national product. This provided some margin of safety against disappointment of expectations regarding output; and, in the event, consumers' money incomes automatically rose less than had originally been foreseen—at least in the farm sector—while the rise of industrial wages was also subject to some automatic restraint resulting from the fairly close link with enterprise receipts and output. These two factors limited the growth of aggregate consumer demand while total resources were supplemented as the result of a slight fall in exports (against a planned increase of 8½ per cent) and a rise in imports. Nevertheless the rise in the domestic price level was rather greater than the increase which had been expected to follow from

the deliberate price reforms and introduction of a customs tariff (see below), particularly because tax cuts and other measures introduced at the beginning of the year contributed to the increase in disposable incomes.

The rise of gross material product by 5½ per cent was accompanied by a rise of more than 6 per cent in "service inclusive" domestic product—rates not greatly below those registered in 1960. Industrial output rose by 7 per cent (compared with 15 per cent in 1960 and a planned increase of 12 per cent) and

TABLE 15
Selected economic indicators for Yugoslavia

Indicator (constant prices)	1961 Index number 1956 = 100	1960	1961 Plan	1961 Actual	1962 Plan
		Percentage changes from previous year			
Gross material product	165	6.2	12.5	5.5	16
of which:					
Construction	166	7.7	8.0	9.2	10
Transport	178	18.0	..	6.0	9
Trade	183	14.0	..	9.6	11
Industrial output	184	15.3	12.0	7.0	13
of which:					
Capital goods	199	20.0	..	8.2	12
Intermediate products .	169	12.8	..	6.3	15
Consumers' goods . .	192	16.8	15	9.0 *	17
Output per worker in industry	128	5.5	7.0	4.0	7
Agricultural output . .	143	-10	16.0	-6.0	23
Gross fixed investment	172	8 ^a	5 ^b	5.0	10
Personal consumption .	156	ca. 8 *	8	7.0 *	11
Exports — Value	172	19.0	8.4	-1.8	18
Imports — Value	144	42.0	..	9.0	6
Employment ^c	140	9.0	..	6.0	6

Sources: National statistics; *Službeni List*, 30 December 1960 and 1961. See also the SURVEY for 1960, Chapter I, section 8.

^a No revision of this preliminary figure has yet been published.

^b State and co-operative investment only. This seemed to imply the expectation of a rise of about 7 per cent in total investment (see the SURVEY for 1960, *loc. cit.*).

^c In non-agricultural material production only.

¹⁵⁰ Chapter I, section 8.

output in construction and trade at a somewhat faster rate; but owing to severe drought agricultural output, which makes up one-fourth of gross material product, fell by 6 per cent (following upon a 10 per cent fall in 1960 also, from the record level of 1959) — the decline being concentrated almost entirely on crops. There were also changes in the pattern of national expenditure, as the share of resources devoted to personal consumption, as well as to collective consumption, increased at the expense of fixed investment and stock accumulation, and — as already mentioned — the export plan was not met. An increase in non-agricultural employment of 6 per cent and in real wages of 5 per cent, together with an estimated increase in total disposable real income in agriculture of 3-4 per cent,¹⁵¹ made possible an apparent rise in total personal consumption of some 7 per cent (against an increase in fixed investment of only 5 per cent). Since farm output fell, the increase in agricultural income reflects an improvement in the terms of trade of agriculture with other sectors.

The pattern of industrial growth

The growth of demand for both current and capital inputs in agriculture, such as fertilizers, pesticides and machinery, was affected until the autumn of 1961 by the limited rise in farm income during the agricultural year 1960/61. With the subsequent increase in farm prices and subsidies, and stimulated by easier credit terms, farm purchases of these commodities rose, in some cases quite sharply. On the supply side, deliveries of tobacco for manufacture were lower, but increased output of livestock and the marketing of a greater proportion of the total crop contributed to a large increase in food-processing.

Demand for certain other products also grew more slowly in 1961. Shipbuilding and (as the year went on) some raw materials were adversely affected, respectively by the continuing recession in world shipping and by more slowly rising (or even by falling) import demand in the industrial countries. In the textiles industry, in particular, domestic demand for traditional commodities rose very little, and the industry did not diversify its output sufficiently to meet the changing pattern of demand or make vigorous attempts to bring the possibilities of new products to the attention of the consumer: ¹⁵² rising exports only partly compensated

¹⁵¹ This estimate is derived as follows: since agricultural producers' prices were on average 15 per cent higher than in 1960 and output fell by 6 per cent, farm income rose by 9 per cent. The increase in the cost of living of the urban population was 10 per cent, but that of the rural population has been estimated at 5-6 per cent, since the components of the index relevant to farmers' consumption and other expenditures rose less than the average. Hence agricultural real income probably rose by 3-4 per cent.

¹⁵² The slow growth of demand for some textiles and consumers' durable goods (especially motor-cycles) also reflected the approach to saturation of the market at ruling prices.

for the rather slack home market. On the other hand, demand for equipment and most consumers' durable goods grew fast, and demand for timber, building materials and related products surged in response to the large increase in both residential and other construction, and outstripped the growth of capacity. In August, the authorities had to intervene to limit excess demand in these industries.¹⁵³

The very varied experience of different industries can be seen from the following data:

Percentage changes in output
January-October 1960 to January-October 1961

Textiles	3
Footwear	6
Shipbuilding	-3
Agricultural machinery	-30*
Other machinery	20
Electrical engineering	18
Consumers' durable goods	18*
Construction materials	13
Timber	10
Chemicals	10
Food-processing	13

Expansion of output in industries enjoying rapidly growing demand was handicapped by the narrower margin of unused capacity at the beginning of the year than at the beginning of 1960, while net additions to capacity during the year were smaller.

Agricultural output

As mentioned earlier, gross agricultural production fell by 6 per cent in 1961, as against a planned increase of some 16 per cent; and as it has been stated that livestock output increased somewhat, the decline appears to have been entirely due to lower crop production. The effect of drought on yields was much more pronounced for individual farms because they employed the new techniques less than the state and co-operative farms and private farmers who collaborated with them — techniques which significantly reduce fluctuations in yields due to the weather.¹⁵⁴ Output of state and co-operative farms in 1961 was 9 per cent higher than in 1960, but on other farms, where the new techniques were not applied, or only partly, it fell by 10 per cent. There was hardly any further spread of the new techniques in 1960/61 to individual farms, via co-operation with state and co-operative farms, and generally investment and current inputs in agriculture rose little, if at all. This was because a

¹⁵³ For details see *Economic Bulletin for Europe*, Vol. 13, No. 2, section 10.

¹⁵⁴ For details concerning the new techniques and their dissemination see the SURVEY for 1959, Appendix to Chapter VII. In the fertile Vojvodina region wheat yields on state and co-operative farms were unchanged in 1961 whereas on other farms they fell 14 per cent.

number of subsidies to inputs were reduced after the record 1959 harvest, when the consequent rapid increase in farm income enabled farmers to finance a larger proportion of farm expenditures from their own resources. During 1960 and early 1961, however, there was no further significant rise in agricultural income, the fall in output being roughly balanced by higher producers' prices. But prices of materials used in agriculture also rose. For these reasons, purchases of fertilizers and pesticides were hardly greater in the first five months of 1961 than in the same period of 1960. Similarly, purchases of agricultural machinery were lower until the autumn, owing to reduced subsidies or price increases following the introduction of customs duties. Moreover, until August, investment credit was tied to a minimum cash contribution which farmers could not always make, because of their unimproved financial position.

In order to stimulate agricultural investments and the further spread of the new techniques in 1961/62, guaranteed prices, special premia, and input subsidies were either introduced or raised in the autumn of 1961 for the main crops and livestock products.¹⁵⁵ Since the authorities expect pressures in the economy to ease in 1962, credit facilities for investment and for financing co-operation between private, state and co-operative farms are to be further enlarged. On the assumptions of normal weather, and increased investment and other inputs accompanying a resumed growth of farm incomes, the plan for 1962 foresees a rise in agricultural output of 23 per cent — some 5 per cent greater than in 1959, the year of record harvest.

The effect of the measures mentioned above was already apparent in the autumn sowings. High-yielding Italian wheat strains, for example, were sown last autumn to an area of 1.1 million hectares, compared with 730,000 in 1960. But the full impact of the various measures will not be felt before the spring of 1962, when hybrid maize, for instance, is to be sown to 600,000 hectares — twice the 1961 area. Orders already placed by farms for supplies of fertilizers in 1962 amount to 1.6 million tons (gross), against 1.1 million tons delivered in 1961; and total investment in agriculture is expected to increase by 15 per cent. The share of the "socialist sector" in the total arable area is planned to increase from 11 per cent in 1961 to 13 per cent (and in the Vojvodina from some 20 per cent to more than 25 per cent), by means of the purchase or lease of private land.

Prices, costs and excess demand

Price reform and the introduction of customs duties implied an increase in the price level of 7 per cent; but the cost of living actually increased by about

¹⁵⁵ Agricultural producers' prices, as noted above, were on average 15 per cent higher in 1961 than in 1960.

10 per cent, the difference being due partly to demand pressure in some sectors, which was not offset to the extent expected by price reductions in others,¹⁵⁶ and partly to rising labour costs, which could not be met in full from profits.¹⁵⁷ Money incomes outside agriculture went up by 21 per cent, but in real terms the rise was of 11 per cent. Since only 7 per cent of the difference was due to the price reform, the remainder — some 3 per cent — must have been the result of demand and cost pressures.¹⁵⁸

The growth of fixed investment was another source of demand and price pressure. Investment outlays rose in volume by 5 per cent, and in value by 20 per cent, part of the difference being due to the import duty on capital goods imposed in connexion with the tariff revision of January 1961 and part to increased building costs — which were themselves a reflection of excess demand in the construction and building-materials industries. The pressure of investment demand persisted from 1960, for the disinflationary measures applied at the beginning of 1961 were largely thwarted. Mainly as a result of the reform of the profits tax, the disposable funds of enterprises rose, and although they were expected to reduce commensurately their calls on bank finance for working capital, enterprises preferred to use these extra resources for fixed investment instead. There was thus a distortion of credit allocation which, in some enterprises, resulted in a shortage of working capital and created production difficulties. Consequently, in August the authorities were obliged to introduce measures both to remove excess demand and procure a more rational distribution of credit.¹⁵⁹ As a result, the growth of fixed investment slackened in the second half of the year.

Trade and payments

The growth of foreign trade and the widening of the trade deficit in 1961 — exports fell in value by

¹⁵⁶ Acting on — as it turned out — the erroneous assumption that the shortfall of demand was only temporary, enterprises faced with only slowly rising demand for their products preferred to accumulate stocks than to clear them by substantial price cuts. Thus, the fall in prices of woollen fabrics was only 5 per cent, in cotton fabrics 7 per cent, and in certain consumers' durable goods 3 per cent.

¹⁵⁷ Prices of foodstuffs and of drink and tobacco both rose by 10 per cent, the second reflecting entirely the results of the price reform and the first some demand pressures also; the rises for clothing and footwear and for household goods were, respectively, 3 and 5 per cent — mainly reflecting demand influences; in the fuel-and-light sector price reforms resulted in a 7 per cent rise and in the services sectors increases of 15-30 per cent seem mainly to have reflected the official subsidy and price changes.

¹⁵⁸ To illustrate the effect on costs, average money wages in the non-farm sector (including compensation for the effect of price reform) rose by 15 per cent between the first ten months of 1960 and of 1961, against a volume increase in gross domestic output per person employed in 1961 (excluding agriculture) of some 5 per cent.

¹⁵⁹ For details see the *Economic Bulletin for Europe*, Vol. 13, No. 2, section 10.

nearly 2 per cent while imports rose by 9 per cent — was influenced not only by harvest failure and slower growth in other sectors than in 1960, but also by the strength of domestic demand while foreign demand for certain products weakened. Moreover, the adoption of a single rate of exchange created export difficulties for a few industries which had formerly been favoured by the system of multiple rates, though as a result of state assistance — mainly in the form of conditional and temporary tax exemptions — these difficulties are stated to have been largely overcome by the end of the year. In all, exports of industrial products rose by only 2 per cent in value; but it is not possible to say how far this was due to the various reforms and how much to other factors. The drop of 8 per cent in the value of exports of agricultural produce, however, was entirely due to the poor harvest, as exports of livestock products rose (by 30 per cent on the basis of ten months' results).

The swift rise in the value of total imports was largely due to a 50 per cent rise in imports of agricultural produce, following the bad harvest.¹⁶⁰ To some extent the widening of the trade deficit was offset by higher receipts from invisibles, especially from transport and tourism; but the balance on goods and services (for which estimates are not yet available) almost certainly worsened and was financed by, *inter alia*, drawings on the credits of \$275 million granted for the support of the currency reform. Moreover, imports of wheat were financed by the United States surplus disposal programme, so that total exchange reserves changed little. The terms of trade improved slightly.

Prospects and the plan for 1962

An increase in gross material product of as much as 16 per cent is planned for 1962, 13 per cent in industry and — as noted above — 23 per cent in agriculture. The authorities hope for considerable relief from the pressures experienced last year, as a result of the policies pursued in the latter half of 1961 and further credit and fiscal measures introduced at the

beginning of 1962.¹⁶¹ Additions to industrial capacity will be considerably bigger than in 1961 and — perhaps even more important — there should be no shortage of working capital. It is also hoped that price cuts effected at the beginning of 1962, the further re-adaptation of industry to changed conditions since the exchange reform, and changes in the composition of output in the sectors where demand has been rising slowly will lead to a better balance between the pattern of industrial output and demand, at a higher level. Some further price increases are to occur in continuation of the reform initiated in 1960, but with the strengthening of their control over credit and the allocation of resources the authorities hope to avoid a recurrence of excess demand, even though the growth of total resources should be slower than that of national product on account of the expected reduction in the trade deficit. Exports are assumed to increase by 18 per cent in volume and imports by 6 per cent; and the realization of these expectations for trade will clearly depend partly on the success with which aggregate domestic demand can be controlled and partly on the speed at which enterprises that have fared badly as a result of the exchange reform or shortage of working capital can adjust to the new conditions. Some substitution of imports as industrial productivity improves is also assumed in the plan.

A major determinant of a return to relative price stability and the avoidance of cost increases is likely to be the movement of wages. The plan assumes that in order to make up for the faster rise of incomes than of productivity in 1961 wages will rise less than productivity during 1962, so that taking the two years together they will have moved in step. If this goal is achieved the possibilities of easing credit restriction and of attaining the planned rise in both fixed investment and stocks will be increased.

¹⁶⁰ One-fourth of all imports was completely liberalized (mainly raw materials, semi-manufactures and some consumers' goods), and a further 17 per cent was made subject to only a global allocation of foreign currency. Imports of capital goods (20 per cent of the total) were regulated through the issue of foreign currency by the Investment Bank. For further details, see GATT document L/1664.

¹⁶¹ For 1962 it has been laid down that enterprises' working capital should rise *pari passu* with output. Communal banks may not devote more than 20 per cent of their personal and insurance deposits to financing fixed investment and may be required to hold 5 per cent of their total deposits with the republican banks. Likewise, enterprises may be required to deposit 5 per cent of their funds allocated for investment and collective consumption, and as a further safeguard the Federal authorities are to freeze 2.3 per cent of the total means of finance available to the economy. Credit expansion based on delayed payments by enterprises for supplies is also to be restricted. The republics are authorized, if need be, to increase the profits tax on enterprises from the present 20 per cent to 30 per cent and local authorities may raise the tax on wages so as to bring in a maximum of 15 per cent additional revenue.

CHAPTER II

RECENT ECONOMIC DEVELOPMENTS IN EASTERN EUROPE AND THE SOVIET UNION

1. THE GROWTH AND USE OF NATIONAL INCOME

The region as a whole

Industry was — even more than usually — the preponderant contributor to the 7 per cent increase in net material product registered in the Soviet Union in 1961 and to approximately the same rate of progress in the eastern European countries as a group.¹ Global output of industry rose by about 9½ per cent in eastern Europe and only slightly less in the Soviet Union; but the vagaries of the weather — and in several countries problems of peasant incentives in the first year of virtually complete collectivization — depressed agricultural production throughout the region, except in Poland (see Table 1).² The rates of industrial expansion were everywhere somewhat slower than in 1960, but were above those planned except in Czechoslovakia and eastern Germany; agricultural output was far below the planned levels in all countries except Poland; in other sectors output generally showed some increase over the 1960 levels though more often below than above the plans.³

Thus the increments of national income (net material product) achieved were certainly somewhat less than had originally been foreseen by the authorities in nearly all countries, though not much below those realized in 1959 and 1960 either for eastern Europe as a whole (8 per cent and 7 per cent respectively) or for the Soviet Union (8 per cent in both years). The contribution of the external trade balance to — or its subtraction from — the growth of resources available for domestic use is difficult to assess in the absence of data on changes in import and export volumes in

1961. In Poland the percentage increases of “produced” and “distributed” national income were insignificantly different, though the import surplus rose in value (see Table 20 below); but in Hungary the change from a foreign trade deficit to a surplus apparently reduced the growth of national income for distribution below that of income produced. The Czechoslovak surplus and the Bulgarian deficit were reduced in value and the 1960 surplus of Rumania was eliminated.

The generally disappointing levels of farm output limited the possibilities of raising average living standards. Nevertheless, output of consumers’ manufactures and services rose enough to permit increases in the real incomes of wage and salary earners, varying between 2 per cent and 5 per cent from one country to another. Fixed capital formation increased everywhere except in Hungary; and in some countries resources were diverted to defence preparations on a greater scale than originally planned. Foreign trade turnover for the area as a whole rose by about 7½ per cent, and everywhere more slowly than in 1960.

The pattern in individual countries

However, the pattern of development (described in detail in subsequent sections) varied considerably from country to country. Poland, Rumania and Albania were the only countries in which the rate of overall economic expansion from 1960 to 1961 was higher than in the previous year. Agriculture was the major contributor to the acceleration in Poland, and sectors other than industry and agriculture — probably construction and trade — in Rumania, though in neither country did industrial growth slacken very significantly (see Table 1). The fall in the overall growth-rate of the Hungarian and Bulgarian economies was due — almost entirely in the first country and mainly in the second — to the poor results in agriculture. In the Soviet Union the virtual stagnation of global agricultural output has now lasted for three years and the slight deceleration of the growth of national income (though to a rate still as high as 7 per cent) seems to

¹ National data on net material product and global industrial output have been combined without adjustment for differences in price structures or for any relative undervaluation of some currencies at the official exchange rates (on this point see the *Economic Bulletin for Europe*, Vol. 11, No. 1, pp. 67-72 and No. 3, pp. 63-68).

² The provisional figure for Albanian agriculture in the table suggests that this country may be another exception.

³ The freight transport plan was overfulfilled in three countries, exactly reached in another and not attained in four countries; the same pattern, with different country incidence, was shown for retail trade turnover. The construction plan was underfulfilled in six and exceeded in two countries.

TABLE 1

National income and global output of industry and agriculture, 1959 to 1961, and plans for 1962 and 1965

Annual percentage rates of growth

Country	1959	1960	1961	1962 Plan	1965 Plan ^a
National income produced					
Albania	17	3	ca. 10	15	9.3
Bulgaria	21.6	6.8	2.9	14-15 *	..
Czechoslovakia . .	6	8.3	7	..	7.3
Eastern Germany .	8.5	4.6	..	..	6.8
Hungary	7	10	5-6 *	9	6.3
Poland	5.1	6.4	8	7	7.0
Rumania	13.1	8	10	13	9.3-10.3
Soviet Union . . .	8	8	7	8.6	7.2-7.4
Global output of industry ^b					
Albania	19.7	11.2	7.2	6	8.7
Bulgaria	20.5	13.4	9.9 ^c	9.9 ^c	..
Czechoslovakia . .	10.9	11.7	8.9	9.9	9.3
Eastern Germany .	12.6	8.3	6.2	..	9.4
Hungary	9.4	12.4	11	8 ^d	8.3 ^d
Poland	9.2	11.1	10.5	8.4	8.7
Rumania ^d	10.2	16.9	15.6	13.5	13.2
Soviet Union . . .	11.4	10.3	9.2	8.1	ca. 8.6
Global output of agriculture					
Albania	20	-7	ca. 22	ca. 22 ^e	11.5
Bulgaria	18.1	3.1	-2.4	25.4	..
Czechoslovakia . .	-1.1	6	ca. 1	5.1	5.1 ^f
Eastern Germany .	..	..	..	..	..
Hungary	6	-5	-1	9-10	4.1 ^g
Poland	-1.0	5.4	10.2	1.7	4.1
Rumania	21	1.1	—*	..	9.3-10.3
Soviet Union . . .	—	2.3	1-2 *	..	7.9

Sources: Statistical yearbooks and bulletins, plans, plan fulfilment reports; and, for agricultural output in Bulgaria in 1962, *Rabotnichesko delo*, 15 November 1961.

Sources for data on the long-term plans ending in 1965 are as follows: Albania, *Economic Survey of Europe in 1960*, Chapter VI, pp. 14-15; Czechoslovakia, *ibid.*, Chapter II, Table 18 and (for global output of agriculture) *Zemědělská Ekonomika*, No. 10, 1961, p. 681; eastern Germany, *Survey for 1959*, Chapter III, Table 1; Hungary, *Magyar Közlöny*, No. 74, 1961, pp. 553-568 (the targets for 1965 expressed as percentage rates of increase from the actual levels of output in 1960, instead of — as originally stated — from the "expected" 1960 figures); Poland, *Survey for 1960*, Chapter II, Table 18, and *Dziennik Ustaw*, No. 11, 1961, p. 52; Rumania, *Survey for 1960*, Chapter II, Table 13; Soviet Union, *Survey for 1959*, Chapter III, Table 1 and, for agriculture, *Survey for 1960*, Chapter IV, Table 32.

^a Compound annual percentage rates during the plan period: for the Soviet Union and eastern Germany the seven years 1959-1965; for Albania, Czechoslovakia, Hungary and Poland 1961-1965; for Rumania 1960-1965.

^b Unless otherwise indicated data on industrial output cover all industry. East German data are at current prices.

^c Enterprises under central and regional administration for 1961 and centrally planned industry for 1962 plan.

^d Socialist industry only. Comparable Hungarian figures for this sector alone for 1959, 1960 and 1961 were 10.8, 13.4 and 12.

^e Global output of industry and agriculture combined is planned to rise by 13 per cent. The weights for the two branches are assumed to be given by the values of global output in 1961.

^f Plan target related to actual output in 1960.

^g Average of 1961-1965 over 1956-1960.

have been attributable to some slackening in most major sectors. Virtually the same deceleration — and to the same 1961 growth-rate — in Czechoslovakia seems to have reflected a similar rather general slackening and failure fully to reach plan targets, though the rate of growth of farm output fell more sharply in that country than in the Soviet Union. External political problems contributed to the special difficulties of eastern Germany and Albania in 1961.

As can be seen from the figures in Table 2, agriculture was the least satisfactory branch of the Soviet economy. But it was not the sole cause of the failure to reach the 9 per cent overall rate of growth planned for 1961, since the goals for increases of 12½ per cent in centrally-planned construction and of 5.8 per cent in retail trade turnover were also not met, the actual increases being 7 per cent and 4 per cent respectively. Freight transport and global industrial output were, however, just above the target levels, increases of 6.3 per cent and 9.2 per cent respectively contrasting with plans calling for increments of 6 per cent and 8.8 per cent.

Since the whole of the excess over the planned level of industrial output was contributed by producers' goods, the goal of a rise of 5 per cent in real per capita personal income ⁴ does not seem to have been reached; but fixed capital formation too was less than expected — probably not more than 4 per cent above that of 1960 (see section 3 below). The increments of personal consumption and of fixed investment were thus significantly below the reported 6½ per cent rise in net material product available for distribution shown in Table 2. It seems therefore that absorption of resources by stock-building and collective consumption (including defence) must have risen sharply.

A higher ratio of stocks to output is envisaged by the USSR Gosplan, ⁵ the proportion of unfinished construction in the total rose (in the Soviet national accounts work on uncompleted investment projects is classified with investment in stocks and work in process rather than with fixed investment) and the increased defence appropriations may well have financed some stockpiling. The supplementary defence budget announced in July 1961 "in view of the increased military budgets of the NATO countries" added 3.1 billion roubles ⁶ to an original allocation equal to that of 1960 (9.3 billion roubles) — the lowest in proportion to national income since the end of the war. The increased outlay was intended both to purchase additional defence equipment and to pay the men

⁴ Including that contributed by expenditures from the social fund.

⁵ See P. Karpov (an official of that agency) in *Ekonomicheskaya gazeta*, No. 13 (30 October), 1961.

⁶ All values in roubles mentioned in this chapter are in "new" roubles (one-tenth of the value in pre-January 1961 roubles).

TABLE 2
Origin of national product in the Soviet Union
Values in billions of roubles, and percentage increases from previous year

	1959 Value	1960		1961		1962 Plan	
		Percentage increase	Value	Percentage increase	Value	Percentage increase	Value
Industry	70.7	8	76.4	9.2	83.4	8.1	90
Agriculture	29.7	3	30.6	2 *	31.2	..	52
Construction	13.5	10	14.9	3.5 *	15.4	..	
Freight transport and communications	6.7	13	7.6	6.3	8.7	6	
Trade, supply and miscellaneous	15.2	12	17.1	4	17.8	7.2	19
Total produced	135.7	8	146.6	7	156.9	8.6	170
Total distributed ^a	133.3	7.8	143.7	6.5	153	..	..

Sources : Statistical yearbooks, plans and plan fulfilment reports.

NOTE. — Global rates of change were applied to 1960 net contributions to derive estimates of values for 1961 and 1962 Plan. The increment used for

transport was that in ton/km and for trade, supply and miscellaneous that in retail trade turnover.

^a In current prices.

retained with the colours by the halt, simultaneously announced, to the 1960-1961 demobilization programme⁷ and the postponement of release of conscripts. Only the increase in material outlays (the more difficult of the two to implement given the need for production-line conversion) forms part of material product for distribution; but as the entire appropriation was taken up and, moreover, was wholly at the expense of allotments to the national economy, a part of the margin between the increments of material product and of personal and investment uses of it may be accounted for under this head.

Soon after the Soviet announcement halting the demobilization programme, corresponding steps were taken by its allies under the Warsaw Pact, and increased allocations of resources to defence uses may account for part of the differences between the reported rates of growth of net material product for distribution and of real personal income and investment in several of them. However, the data on the distribution of national expenditure are not yet sufficiently complete for firm conclusions to be drawn.

The rise in fixed capital formation kept pace with that of national product in Czechoslovakia and Poland, increases of 7 and 8 per cent, respectively, being registered. However, personal consumption seems to have approached this rate of increase only in Poland, partly as a result of an unplanned rise in farmers' real incomes; and in Czechoslovakia real personal consumption rose by only about 3 per cent.

A reduction of fixed capital formation in Hungary had been planned; and in the event gross fixed investment outlays in the socialist sector (excluding capital repairs) fell by 20 per cent below the 1960 volume. Inventory investment probably rose, but aggregate

personal consumption apparently increased by only 3 per cent. These data suggest that collective consumption must have risen very greatly, even allowing for some absorption of resources in improving the balance of foreign trade.

Rumania registered the largest increase in material product of all the countries of the region—10 per cent.⁸ In contrast with all the other countries, state investment rose very much faster than national income—by 21 per cent—and the increase of personal consumption was therefore much smaller. It probably did not exceed 5 per cent; but social outlays may well have absorbed a somewhat increased share of material product, as expenditures on public health and education rose by 21 per cent and 11 per cent respectively.

The available data on investment in Bulgaria suggest that fixed capital formation probably rose somewhat faster than national income—by something over 3 per cent (see section 3). Investment in stocks and work in process probably fell, as stocks were drawn down to support the 16 per cent rise in exports (achieved despite a decline in farm output) and there was also a campaign to dispose of excessive retail stocks. The fall in farm incomes seems, in its effect on aggregate personal consumption, to have offset the rise in real wages in the non-farm sector, which may have been of the order of 4 per cent. The 13 per cent increase of defence outlays and the 10 per cent rise in social expenditures foreseen in the 1961 Budget suggest that collective consumption took an increased share of material product.

In eastern Germany, for which conclusions must be highly tentative in the absence of a 1961 plan fulfilment report, the year's increment of material pro-

⁷ For an assessment of the effect of this programme on national product, see the SURVEY for 1959, Chapter III, p. 5.

⁸ If the figure for Albanian agricultural output shown in Table 1 is confirmed that country's increase of total material product may be similar.

duct was certainly lower than in the recent past. Capital formation certainly grew less than material product and probably personal consumption also; and, from the need to build up the regular forces to prepare for conscription in 1962 and the priority recently stated to rule for the armaments industry,⁹

⁹ *Die Wirtschaft*, 31 January 1962.

it may be inferred that defence outlays took an increased share. However, the stock increment must have been particularly large since at 30 September 1961 stocks of raw and semi-processed materials and finished goods in socialized industry were 16 per cent above the level of a year before.¹⁰

¹⁰ *Materialwirtschaft*, No. 1, 1962, p. 1.

2. THE GROWTH OF THE LABOUR FORCE AND OF OUTPUT IN INDUSTRY AND AGRICULTURE

(a) The non-farm labour force

Net recruitment to non-farm employment in 1961 was larger, in most countries of the area, than had been envisaged in either the annual or the long-term plans. In the Soviet Union, the planned 1961 increase in the number of wage-earners (3.2 million) was nearly double the annual average called for under the 1959-1965 plan, following two years in which the latter figure had also been exceeded (see Table 3); and an upward revision of the planned increment over the seven years — from 12 million to 22 million — was subsequently announced.¹¹ In the event, the 1961 employment plan was exceeded by 23 per cent. Part of the excess may have been due to the transformation of some collective farms into state farms, but most resulted from the 70 per cent greater increase in workers in industry than had been scheduled.¹² Reductions in working hours in 1960 and 1961 were partly responsible for the extremely heavy industrial recruitment in those two years, which is planned to fall to 562,000 (net) in 1962, the corresponding increase in the total numbers in the state and co-operative sector amounting to 2.46 million.

In Rumania, Poland, Czechoslovakia and Hungary net industrial recruitment was above both the annual and the long-term plans, but took very different shares of the overall increment of state and co-operative employment — respectively 30, 40, 50 and over 90 per cent. This share was constant in Rumania but rose in Poland and Hungary and fell in Czechoslovakia, contributing to the labour stringency in industry in that country. Special factors contributed to the high rate of recruitment in Czechoslovakia and Poland in 1961. In the former country considerable reductions in working hours were introduced as one stage on the way to establishment of a universal 42-hour (or shorter) week by 1965. In Poland, the relaxation of earlier government pressures to restrict industrial recruitment

resulted in a rapid rise in employment in many enterprises which had been complaining of labour shortage.¹³

Although a slow-down of demobilization or retention of conscripts with the colours beyond the normal term was announced in most countries during the year (see section 1), the data in Tables 3 and 5 below suggest that this cannot have significantly hampered the expansion of civilian employment.

Serious general labour shortage as yet exists only in eastern Germany, though labour scarcity in particular occupations is a more widespread problem and is especially evident in Czechoslovakia, where shortages of skilled workers exist in agriculture, mining, construction and the metallurgical industries. Nevertheless, the gradual absorption of labour reserves in a number of countries is a factor in the increased preoccupation with the efficiency of use of resources, including labour, noted in subsequent sections. Moreover, in the Soviet Union a high priority is already being given to crèche and nursery school construction explicitly to free more women for gainful employment,¹⁴ and discussion has begun of the possibility of locating more industry in small towns where under-employed labour is available.¹⁵ In Poland, such a policy has now been pursued for some years — though with the aim more of fully utilizing the fixed capital available in such towns than of seeking new sources of industrial recruitment.

The implications of the measures taken to stop the heavy net emigration from eastern to western Germany were reviewed in the last *Bulletin*,¹⁶ where it was noted that, according to east German estimates, a continuing fall in the working-age population (and in its share in the total) must nevertheless be expected for some years to come. The First Secretary of the Socialist Unity Party has since added that the cost of educating and training eventual emigrants was also a factor in the authorities' determination to stop the

¹¹ V. Moskalenko and G. Zelenko, *Ekonomicheskaya gazeta*, 7 February and No. 12 (23 October) 1961 respectively. The effect of expected transformations of collective into state farms is presumably excluded from these targets.

¹² Production workers only. The actual 1961 and both plan figures are derived from output and productivity indices and may hence be subject to some error.

¹³ See the *Bulletin*, Vol. 13, No. 2, p. 2.

¹⁴ The Chairman of the Presidium of the Supreme Soviet, reported in *Pravda*, 21 October 1961.

¹⁵ See M. Garin and K. Sevrikov, *Izvestia*, 28 October 1960, and A. Prazdnikov, *Sovetskaya Rossiya*, 26 August 1960.

¹⁶ Vol. 13, No. 2, p. 2.

TABLE 3

Employment in the state and co-operative sector (excluding co-operative farms) in five eastern European countries and the Soviet Union, 1960 to 1965 Plan

Thousands

Country		Total 1960	Annual increments				
			1959	1960	1961 Actual	1961 Plan	1965 Plan ^a
Czechoslovakia . . .	Industry	2 281	70	123	86	59	32
	Other non-farm occupations	2 272	41	44	..	..	..
	Total	4 829	110	147	171	..	88
Eastern Germany . . .	Industry	2 322	6	1	..	ca 14	5
	Other non-farm occupations	2 678	236	143	..	..	..
	Total	6 309	313	735	..	..	..
Hungary	Industry	1 272	59	82	52	33	33
	Other non-farm occupations	1 436	81	72	3	48	107
	Total	2 708	140	154	55	81	140
Poland	Industry	2 936	41	16	85	28	51
	Other non-farm occupations	6 467	158	32	128	60	91
	Total	6 993	131	81	238	102	147
Rumania	Industry	1 255	41	57	75 *	50	58
	Other non-farm occupations	1 683	38	103	128 *	..	..
	Total	3 249	114	191	237	..	..
Soviet Union	Industry	22 291	532	880	1 115	580	618
	Other non-farm occupations	32 611	1 699	1 947	1 800 *	..	1 096 ^b
	Total	62 032	1 904	4 120	3 950	3 200	1 714

Sources : Statistical yearbooks, plans, fulfilment reports, *Statistický obzor*, No. 11, 1959; *Planované hospodářství*, No. 12, 1960; *Práce a mzda*, No. 9, 1961, and *Trybuna Ludu*, 6 February 1962. Rumanian data for 1961 and the 1962 Plan in industry were derived on the assumption that the 1961 productivity plan was exactly fulfilled.

NOTE. — Data are annual averages for Czechoslovakia, Hungary, Poland, Rumania and the Soviet Union and counts at the end of September for eastern Germany; apprentices are excluded except in Hungary and the Soviet Union. In Rumania apprentices are included *pro rata* to the hours actually worked in production. See footnote 18 on east German data for 1959. Additions to or departures from occupations classed as "state and co-operative sector"

consequential upon administrative changes have so far as possible been excluded. In the Soviet Union the entry of 1.2 million workers to state industry and 0.2 million to other sectors, resulting from the nationalization of craft co-operatives, has been excluded but the transfer of RTS mechanics to collective farms in each of the years stated could not be allowed for. Employment in retail and craft co-operatives is included in the data for all countries; employment in co-operative farms, and in east German semi-state enterprises, is excluded.

^a Arithmetical average annual increment over the plan period.

^b On the assumption that changes in farm occupations were not incorporated in the overall goal.

outflow, the postwar movement to western Germany having already cost eastern Germany some DM 30 billion on this account.¹⁷ In the context of the acute east German labour shortage, it is remarkable that industrial employment should have remained virtually constant in 1959 and 1960 (and probably also in 1961) while other sectors have shown substantial intakes of manpower (see Table 3),¹⁸ though the net recruitment of 20,000 apiece to building and retail trade in 1960 is explicable by the urgent needs of these branches

¹⁷ *Pravda*, 30 December 1961. The computation is in line with one of DM 22.5 billion made in 1957 by F. Baade (Institut für Weltwirtschafts, Kiel) and quoted by Mr. Ulbricht (*Neues Deutschland*, 28 November 1961), but it ignores savings on the training of immigrants, whose level of skill tends, however, to be below that of the emigrants. There are also shorter-term inflows to meet special needs — e.g. the secondment of Soviet medical personnel for general and hospital practice in eastern Germany.

¹⁸ The east German sector increments for 1959 in Table 3 are not comparable with those for later years because the staff of project and design bureaux, special technical schools and publishing houses, were included in the branch served in 1958, whereas for the later years they are classified in the "non-material sector".

and the fact that trade offers possibilities of employing married women and the elderly who might not be available for other employment.

(b) The industrial expansion

As was mentioned in section 1, the rates of industrial expansion from 1960 to 1961 exceeded those planned in all countries except Czechoslovakia and eastern Germany.

Percentage increases of global industrial output 1960 to 1961

	Plan	Actual		Plan	Actual
Albania	6.8	7.2	Hungary	7.8	12
Bulgaria	6.1 ^a	9.9	Poland	7.7	10.5
Czechoslovakia	9.3	8.9	Rumania	13.0	15.6
Eastern Germany	7.2	6.2	Soviet Union	8.8	9.2

Sources : As for Table 1.

NOTE. — Coverage of data is the same as for Table 1 except that for Hungary they cover socialist industry only.

^a The original plan envisaged an increase for Bulgaria of 7.8 per cent (in centrally planned industry).

TABLE 4

Global industrial output in six eastern European countries, by quarters, 1960 and 1961

Percentage increases $\begin{cases} A = \text{from the same quarter of the preceding year} \\ B = \text{from the preceding quarter} \end{cases}$

Country		1960				1961			
		First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Bulgaria	A	18.6 ^a	12.1 ^a	9.7 ^a	14.0 ^a	7.9	12.9	18.7	2.4
	B	^b	-5.5	-2.1	4.0	12.2	-1.1	2.8	-10.3
Czechoslovakia	A	12.9	10.5	11.2	11.5	10.1	9.3	9.5	6.9
	B	-4.8	4.4	-3.9	16.6	-6.0	3.6	-3.7	13.8
Eastern Germany	A	11.7	7.5	5.6	8.4	6.5	4.3	6.0	7.9
	B	-3.6	4.2	2.1	5.7	-5.3	2.0	3.9	7.5
Hungary	A	18.4	13.6	11.7	8.2	13.6	11.0	12.6	9.0
	B	-7.9	4.0	4.9	7.7	-3.3	1.6	6.5	4.2
Poland	A	7.3	8.8	12.8	14.3	11.5	12.9	10.3	11.2
	B	-5.6	3.4	0.2	16.8	-7.9	4.7	-2.1	17.8
Rumania	A	19.2	16.9	17.3	15.6	18.1	15.7	15.3	14.0
	B	-7.2	7.1	6.0	9.7	-5.2	4.9	5.7	8.4

Sources: Plan fulfilment reports, quarterly and monthly statistical bulletins, ECE, *Statistical Indicators of Short-term Economic Changes in ECE countries*.

NOTE. — For coverage, see the note to Table 1. For comparable data for 1959, see the SURVEY for 1960, Chapter II, Table 2.

^a Percentage increases from the quarterly average for 1959.

^b Changes of coverage and prices prevent comparison.

Though high, these rates were everywhere below those registered in 1960, and in Albania, Bulgaria, eastern Germany and the Soviet Union even further below those of 1959 (see Table 1). The quarterly figures in Table 4 indicate a rather steady deceleration during the past two years in Czechoslovakia, eastern Germany and Rumania, but no obvious trend is apparent in Bulgaria, Hungary or Poland.

The earlier extraordinarily rapid rise in the industrial labour force was practically halted in Bulgaria in 1961 and the percentage increments were smaller than in 1960 in Czechoslovakia and Hungary also; but in Poland, the Soviet Union and, apparently, Rumania the rates of net recruitment accelerated (see Table 5). Output per man rose rapidly in all countries for which data are available, and at well above the planned rates except in Czechoslovakia and the Soviet Union. However, in those two countries the reductions in working hours, mentioned above, imply that output per man-hour rose considerably faster — by 11 per cent in the Soviet Union.¹⁹

¹⁹ In Czechoslovakia output per man-hour in the first half of the year was reported to be 7½ per cent higher than in the same months of 1960 (see the *Bulletin*, Vol. 13, No. 2, p. 2). However, the Minister of Finance has emphasized the Government's disappointment at the increase in industrial labour productivity achieved over the year as a whole. This resulted in 110,000 more workers being employed than had been envisaged for that year under the Five-year Plan and, in the light of 1961 experience, it is now expected that labour productivity will contribute 67 per cent of the growth of output planned for 1962 instead of the 81 per cent called for by the original Five-year Plan (*Rudé Právo*, 23 February 1962).

The relaxation of restrictions on industrial recruitment in Poland, also mentioned above, did not prevent a further satisfactory rise of labour productivity — even if at less than the extraordinarily high rate registered in 1960; but fears that a new over-expansion of employment, and of wage bills, may be starting have been voiced by the Deputy Prime Minister.²⁰ In Hungary the growth of labour productivity actually accelerated, as it did even more in Bulgaria; and the changes in industrial employment and labour productivity in the latter country suggest that the sharp drop in recruitment must have reflected special pressures, or incentives, for enterprises to seek higher output via productivity, rather than employment, increases.

The patterns of industrial growth

In most countries of the region, the industrial expansion seems to have proceeded rather smoothly in 1961. The degree of plan fulfilment has, as usual, varied from one branch to another; but relatively few diffi-

²⁰ Mr. Jaroszewicz stated recently: "In 1961, the Party and Government leadership has been forced to deal several times with the problem of weakening labour discipline, the disproportion between the increase of production and the increase in the wage fund, the unjustified increase of employment over and above the planned level — briefly, everything we bring under the heading of financial discipline. Proper conclusions must quickly be drawn from this situation and we must expect a decisive change of attitude. Only in this way shall we be able to prepare a proper start for fulfilment of the 1962 targets." (*Trybuna Ludu*, 24 October 1961.)

TABLE 5

Employment and global output per worker in industry, 1959 to 1961, and plans for 1962 and 1965

Annual percentage rates of growth

Country	Employment						Labour productivity					
	1959	1960	1961		1962	1965	1959	1960	1961		1962	1965
			Plan	Actual	Plan	Plan			Plan	Actual	Plan	Plan ^a
Albania	13.5	1.4	..	4.7	8.6	4.9	..	9.7	..	..	..	..
Bulgaria	17.0 ^a	10.4	3.3	1.9	2.3	..	3.0 ^a	2.6	4.4	7.8	7.4	..
Czechoslovakia . .	3.5	4.5	2.6	3.6	2.5	1.7	7.1	6.9	6.5	5.1	7.2	7.4
Eastern Germany . .	2.1	0.1	0.6	..	..	0.2	10	8.2	6.6	..	..	9.2
Hungary	5.2	7.0	2.6	3.7	2.6	2.4	5.3	6.0	5.3	8.0	5.3	5.7
Poland	1.8	0.5	1.1	2.9	2.7	1.5	7.6	10.7	6.4	7.4	5.5	6.7
Rumania	3.0	4.5	4.1	..	4.6	4.4	7	12	9	.. ^b	8.5	8.2-8.7
Soviet Union . . .	3.3	4.8	2.6	5.0	2.4	2.5	7.4	5	6	4.0	5.6	5.5-6.0

Sources : As for Table 1 and *Práce a Mzda*, No. 9, 1961, p. 385.

NOTE. — Data cover all industry, with the following exceptions: in Bulgaria data on labour productivity in 1961 cover state and co-operative industry only, and the growth of employment has been estimated from this figure and the rise in output of centrally planned industry shown in Table 1; in Albania, eastern Germany and Hungary data cover socialist industry only; in the Soviet Union

they do not cover industrial activity in collective farms. For most countries employment changes are derived from data on changes in output and labour productivity. For comparable figures for earlier periods see the SURVEY for 1960, Chapter II, Table 3.

^a See footnote *a* to Table 1.

^b The plan was fulfilled.

culties arising from specific shortages of fuels or materials have been reported. Electricity generation increased faster than global industrial output in Bulgaria, Czechoslovakia, Poland and the Soviet Union and showed very large increases in Hungary and Rumania also; and the links between the electric power networks of Czechoslovakia, eastern Germany, Hungary and Poland, established in January 1962, should help to increase the efficiency of utilization of generating capacity in the area.²¹

However, in Czechoslovakia, Poland and the Soviet Union, the familiar signs of rather general overstrain in the economy — in the form of shortage and maldistribution of stocks — were reported.²² In Czechoslovakia, indeed, there have again been complaints of excessive short-term fluctuations in output, due to supply difficulties, leading to a rush to assure fulfilment of output plans by "plundering the enterprise's reserves" at the end of the plan period, and subsequent slack working at the start of the new plan until stocks of materials and intermediate goods are reconstituted.²³ Eastern Germany has faced particularly difficult problems of materials and fuel supply as well as labour shortage.

In all the more highly industrialized countries of the area, the quality and assortment of output is naturally being given increasing weight in relation to the objective of rapid overall growth. This is reflected in the

measures to promote economic efficiency discussed in section 4; it also has to be borne in mind in assessing the significance of the complaints of poor fulfilment of output plans for particular products or branches frequently appearing in plan fulfilment reports. However, in the Soviet Union and Czechoslovakia some of the 1961 shortfalls seem to have been serious enough adversely to affect progress towards major development objectives (see below). Building materials is the one branch in which the level and composition of output have been deficient in most countries (in relation, however, to generally ambitious construction plans). Chemicals and engineering were almost equally generally the most rapidly expanding branches — as foreseen in the long-term plans.

As in 1960, the 1961 plans foresaw a faster expansion of output in the producer-goods than in the consumer-goods sectors wherever such targets were specified, though the margin for Rumania was very small:

Country	1959	1960	1961		1962 Plan
			Plan	Actual	
Producers' goods					
Hungary ^a	12.9	14.0	9.1	12	..
Poland	13.2	13.5	8.9	11.9	8.4
Rumania	14.4	..	13.8	17.1	15.7
Soviet Union . . .	12.2	10.2	9.5	>10	8.8
Consumers' goods					
Hungary ^a	7.4	10.1	5.7	>10	..
Poland	4.9	8.3	6.1	8.1	8.3
Rumania	4.4	..	13	13.4	9.9
Soviet Union . . .	9.8	5.7	6.9	6.6	6.6

Sources and coverage : As for Table 1.

^a Producers' goods refers to heavy industry; consumers' goods to light industry, including food processing.

²¹ See also section 3 (c) below.

²² See section 4 below.

²³ See *Rudé Právo*, 1 December 1961 and, on similar past experiences in other countries, the SURVEY for 1958, Chapter I, pp. 29-32 and the SURVEY for 1960, Chapter II, pp. 2-3.

TABLE 6. — Indicators of industrial activity by main branches, 1959 to 1962 Plan

Percentage increases in global output from the preceding year

Country and industrial branch	1959	1960	1961 Plan	1962 Actual	1962 Plan	Country and industrial branch	1959	1960	1961 Plan	1962 Actual	1962 Plan
Albania (Total industry)						Hungary (continued)					
Oil	11.5	25.0	..	3.4 *	34.6	Engineering	14.5	19.5	9.9	15	10.9
Bitumen	32.0	5.6	..	14.2 ^a	3.5	of which :					
Chrome	23.9	15.8	..	..	15.4	General	15.1	18.0	..	12	..
Iron ore	147.9	44.7	..	50.2 ^a	..	Electrical	17.8	22.3	17.7 ^a	21	17.5
Electric power	19.0	16.5	6.2	6.5 *	11.9	Precision	17.2	21.6	15.8	18	..
Engineering	19.7	22.9	..	..	10.0	Chemicals	15.9	15.4	13	20	..
Building materials	34.5	18.2	48.8	49.1 *	11.9	Rubber and plastics	11.6	18.8	19	27	15.1
Timber	15.2	11.9	4.8	5.1 *	..	Building materials	18.1	10.6	8.5	4	7.5
Glass and ceramics	44.3	..	38.3	43.2 *	..	Light industry	7.3	14.3	6.4	9	..
Light industry	15.2	1.3	4.0	4.2 *	5.7	of which :					
Food processing	22.6	15.9	4.6	4.8 *	6.8	Timber processing	12.6	17.2	..	11	..
Bulgaria ^b						Paper	12.6	12.0	8.2	12	..
Fuels	14.8	11.8	2.6	4.5	11.4	Printing	11.6	11.3	..	10	..
Electric power	29.6	20.0	15.6	15.8	14.1	Textiles	4.6	11.0	..	7	..
Ferrous metallurgy	26.5	6.0	24.8	20.4	29.6	Leather and fur	2.1	13.8	..	7	..
Non-ferrous metallurgy	29.6	18.9	6.0	6.5	13.5	Clothing	9.6	17.7	..	9	..
Engineering and metal-using	43.2	21.1	13.5	15.5	17.8	Miscellaneous light industries	4.6	23.4	..	17	..
Chemicals	46.8	20.7	15.8	11.9	15.5	Food processing	7.5	6.3	5	11	..
Building materials	44.4	26.3	13.6	13.0	14.5	Poland (Socialized industry)					
Timber and timber processing	15.4	9.0	7.9	11.5	..	Fuels	5.5	6.2	2.0	2.8	4.0
Cellulose and paper	21.3	12.2	2.7	6.2	..	Electric power	10.4	12.4	13.9	11.5	11.8
Glass and china	25.6	40.0	26.1	31.0	..	Ferrous metallurgy	9.4	9.7	7.5	10.5	8.2
Textiles	19.2	10.0	-3.6	-1.4	4.2	Non-ferrous metallurgy	5.3	12.6	6.5	14.5	5.6
Leather and footwear	13.8	-7.7	0.3	3.5	17.0	Engineering (weighted average for four branches)	19.8	18.5	14.1	17.8	12.4
Food processing	7.4	13.1	8.7	15.4	6.8	Chemicals	18.9	21.4	15.9	19.1	12.6
Czechoslovakia (National enterprises)						Building materials	13.6	9.9	10.1	10.5	7.0
Fuels	5.5	7.8	..	4.6	..	Glass	10.6	13.4	6.2	11.0	10.3
Energy	12.6	15.0	12.5	10.2	..	Timber processing	7.4	8.5	4.4	8.3	4.5
Metallurgy and ore mining	13.0	11.6	10.3	7.5	13	Paper and printing	11.8	8.7	6.9	8.7	3.4
Heavy engineering	16.0	15.7	14.1	11.5	..	Textiles	9.4	3.9	4.2	6.9	4.5
General engineering	18.0	16.0	..	12.2	..	Clothing	-8.0	5.9	2.6	11.2	13.0
Chemicals and rubber	16.0	22.8	11.4	12.9	..	Leather and footwear	6.7	3.9	-1.2	0.3	6.9
Building materials	16.6	13.4	9.7	7.3	..	Food processing	3.2	9.4	5.2	6.9	7.4
Consumers' manufactured goods	7	8.2	5.5	8.5	7.0	Rumania (Socialized industry)					
of which :						Electric power	..	12.1	11.5	13	..
Clothing	5.0	14.3	..	12.1	..	Ferrous metallurgy	38.8	32	16.6	18	..
Glass	12.5	9.9	..	8.4	..	Engineering and metal-working	15.6	22	16	20	..
Cellulose and paper	6.2	6.7	..	4.5	..	Chemicals (including rubber)	20.4	16	18 ^e	27	25
Polygraphic industry	7.1	7.1	..	4.3	..	Textiles	1.8	17	..	20	..
Food processing	5.4	6.6	7.2	5.7	..	Food processing	4.6	13	11	8	..
Eastern Germany (All industry)						Soviet Union (All industry)					
Basic industries	10.0	7.0	..	6.6 ^c	..	Fuel and power ^f	9	8	..	7	..
of which :						Ferrous and non-ferrous metallurgy	9	10	9	10	..
Energy	11.5	11.1	5.8	4.2 ^c	..	Engineering and metal-working	15	15	14	16	12
Mining	3.2	-2.7	2.3	4.2 ^c	..	Chemicals and rubber	11	11	14	14	..
Metallurgy	10.9	10.7	5.3	6.1 ^c	..	Building materials	20	20	..	12	..
Chemicals	11.0	7.4	6.3	7.6 ^c	..	Timber, timber processing and paper	9	7	10 ^g	5	..
Building materials	14.4	9.7	13.4	6.2 ^c	..	Consumers' manufactured goods	8	6	7	5	..
Metal-working industries	18.3	10.7	..	6.7 ^c	..	Food processing	10	6	8	7	..
of which :											
Heavy engineering	14.4	8.9	9.6	6.4 ^c	..						
General engineering	23.9	13.7	13.0	11.5 ^c	..						
Vehicles	15.4	8.1	8.6	5.7 ^c	..						
Shipbuilding	26.1	12.6	-9.5	-11.7 ^c	..						
Casting and forging	11.0	9.3	7.2	6.3 ^c	..						
Metal goods	18.7	10.4	9.6	9.5 ^c	..						
Electro-technical	21.0	13.4	15.1	8.1 ^c	..						
Fine mechanics and optics	13.5	6.9	9.2	5.3 ^c	..						
Light industry	11.9	5.5	..	5.4 ^c	..						
of which :											
Timber processing	15.9	9.9	5.5	8.0 ^c	..						
Textiles	10.8	4.4	5.1	2.8 ^c	..						
Clothing	11.0	2.1	5.7	9.7 ^c	..						
Leather, shoes and tobacco	14.3	6.1	6.2	6.4 ^c	..						
Cellulose and paper	9.1	4.6	3.4	5.3 ^c	..						
Polygraphic industry	10.1	7.6	2.3	3.9 ^c	..						
Glass and ceramics	12.8	7.9	6.7	6.1 ^c	..						
Food processing	4.8	8.7	5.3	5.4 ^c	..						
Hungary (State industry)											
Mining	9.4	6.2	4 *	7	..						
Electric power	11.9	10.0	9 *	9	9.2						
Metallurgy	11.1	9.4	7.7	10	..						

Sources : Statistical yearbooks and bulletins, national plans and plan fulfilment reports; *Az ipar termelése és szerkezete (1949-1959)*, pp. 76, 84, 85; *Statistika évkönyv, 1960*, p. 80; *Statistikai havi közlemények, 1962*, No. 2, p. 19; *Népszabadság*, 1 January, 24 December 1961; *Népszava*, 14 and 18 January 1962; *Monitor Polski* (official gazette) No. 97, 1960 and No. 99, 1961.

NOTE. — For coverage see the note to Table 1. For comparable data for earlier periods, see *Economic Survey of Europe in 1960*, Chapter II, Table 4.

^a Increase in first nine months of the year 1961 over the corresponding period of 1960.

^b 1959 and 1960, all industry; Plan 1961 and 1961 actual, state industry; 1962 Plan centrally planned industry.

^c Increase in first eleven months of 1961 over the corresponding period of 1960.

^d Telecommunications only. In 1962 the metal-making and metal-using industries are planned to increase their output by 8 per cent compared with 1961.

^e Including cellulose and paper.

^f In calories, excluding atomic energy, 1959 in value at 1955 prices.

^g Timber processing only.

As can be seen from the above figures, the plans for both sectors were over-fulfilled in Hungary, Poland and Rumania; but in the Soviet Union the whole of the over-fulfilment was in the producer-goods sector. The engineering and chemicals branches led the expansion in that country, and were the only ones in which the rate of growth of output accelerated (see Table 6). Within the latter branch the strongly desired acceleration of fertilizer output was achieved — from percentage rates of growth of 4 in 1959 to 8 in 1960 and 10 in 1961 — and output of some of the newer products rose particularly fast.²⁴ In the engineering branch progress was patchy, although global output rose rapidly; and the only two items for which both plan targets and actual output have been published showed large shortfalls. Production of turbines rose by 17 per cent but a much larger increase had been planned;²⁵ and the 7 per cent rise in output of chemicals equipment (compared with 27 per cent planned and 29 per cent achieved in 1960) meant that investment in the chemicals industry again lagged behind the target rate. The deceleration of building-materials output — even though from a 20 per cent to a 12 per cent rate of growth — must have contributed to the non-fulfilment of construction plans, discussed in section 3, since even at the beginning of the year the flow of materials was said to be seriously inadequate in some areas.²⁶ But in the fuel and power sector the planned growth of output was achieved; and so, broadly speaking, was the planned change in pattern — production of natural gas rising by 29 per cent and of crude petroleum and electric power by 12 per cent, while coal output actually fell slightly. In the consumer-goods branches planned levels of output were not, however, attained: a poor agricultural year limited the rise of food-processing, but lack of demand for the quality and assortment of goods available may well account for part of the slowing-down of production of textiles, footwear and some durable goods while output of the newer consumer-durables rose very quickly.

In Czechoslovakia, branch output plans were fulfilled only for chemicals and consumers' manufactures, and all branches showed slower growth rates than in 1960 (see Table 6). The slackening of expansion in the fuels sector has intensified the anxieties about the fuel-base of the Czechoslovak economy regularly expressed for many years past. Following completion in October of the Czechoslovak section of the oil-pipeline system supplying Soviet oil to eastern Europe, crude oil has begun to flow to the Bratislava refinery; and oil will provide a steadily rising share of the

country's future energy supplies. But over the last three years coal production has risen by only 5 per cent in total and no faster in the Ostrava basin, which is counted upon to provide practically the whole of the 20 per cent increment of output required by the current Five-year Plan:

Output of hard coal in millions of tons

	1959	1960	1961	1962	1965
	Actual			Plan	
Total	25.12	26.21	26.4	27.6	31.4
of which :					
Ostrava coal basin .	19.70	20.68	20.7	21.7	25.6

Sources : *Uhlí*, No. 5, 1960 and No. 9, 1961; *Rudé Právo*, 27 December 1961, and national statistics.

The virtual stagnation of output in 1961 has been attributed by the Chairman of the State Planning Commission to inadequate equipment, labour supply and organization.²⁷ Despite a country-wide recruitment campaign, wastage from the industry continued to more than offset new recruitment and about one-third of the 70,000 miners employed in the Ostrava basin are temporary workers, some of poor quality.²⁸ In October 1961, therefore, the Government adopted a resolution calling for increased attention to physical conditions in the mines — including improvement of free aids to safety and hygiene for underground workers, of catering facilities and of miners' housing — and it also authorized increases of average wages by 9-13 per cent.²⁹

The present situation in the Czechoslovak coal industry seems reminiscent of that in Poland before 1958. Polish coal output had then remained virtually unchanged for the four preceding years; but from about 1956 onwards intense efforts were made to recruit a stable labour force and to improve standards of management and equipment, which bore fruit in the form of a 13 per cent rise in output over the four years from 1958 to 1961.

In the Czechoslovak metallurgical industry, below-plan output of steel and rolled products led to some specific shortages which, in turn, hampered the engineering branches.³⁰ Deliveries of equipment to some priority investment projects fell behind schedule

²⁷ *Rudé Právo*, 1 December 1961.

²⁸ See *Tvorba*, 14 September 1961 and *Práce*, 3 November 1961. According to the latter source, people are being brought into mining who are "not idealistically motivated, but who join brigades for materialistic reasons such as permission to purchase a motor-car". It has also been reported that 30 per cent of the brigade workers sent to Ostrava during the first half of 1961 were workers who had been failures in other jobs. On the other hand, "there are some 6,000 miners who have worked in Ostrava for 8 years and who are still employed on a temporary basis" (*Mladá Fronta*, 3 November 1961). The article alleged that many managers use the annual contract renewal system as an easy way to fulfil their recruitment targets.

²⁹ *Rudé Právo*, 22 October 1961.

³⁰ See *Rudé Právo*, 24 November and 8 December 1961.

²⁴ For details on some individual products see Appendix Table C.

²⁵ By 23 per cent for steam turbines and 52 per cent for hydro-turbines.

²⁶ See the debate in the Supreme Soviet on the 1961 Plan, *Izvestia*, 23 December 1960.

and export plans in this sector were also underfulfilled. However, results in the chemicals sector were stated to be very satisfactory, large increases in output of most important products being recorded even though plan targets were not always reached.

Eastern Germany seems to have been the one country still experiencing a serious shortage of electric power, overloading and under-maintenance of capacity causing frequent breakdowns; and total energy production has risen considerably less fast than global industrial output (see Table 6).³¹ Inadequate energy supplies have contributed to the difficulties of the engineering branches, where output has generally lagged behind the planned rates, though the metallurgical industries seem to have succeeded both in raising overall output as planned and in making the desired switch to products which will lessen dependence on west-German suppliers. Underfulfilment of plans for engineering output has both hampered the export drive and caused delays in planned installations of new equipment in domestic industries; and the deceleration in the building materials sector, when the plan called for a sharp acceleration, has similarly delayed planned construction. However, the timely installation of new capacity in the chemicals branch contributed to overfulfilment of its production plans, particularly for plastics and synthetic fibres. Chemicals now constitute 14.7 per cent of eastern Germany's global industrial output and that country claims to rank seventh in the world as a producer of chemicals (second in terms of per capita output).³² Whereas chemicals and mining are the only two branches of the basic and metal-using industries in which production plans seem to have been fulfilled in 1961, and in which rates of growth of output were not reduced, production in the light industries rose about as fast as in 1960 and plan targets were generally reached or exceeded. However, food processing grew more slowly, reflecting poor supplies from agriculture.

The major economic problem for the east German authorities remains that of adjusting the pattern of industrial production to make the best use of a labour force that is bound to remain practically static for some years to come — a problem now complicated by the need for additional structural adjustments following the recent decision to loosen still further the economic ties with western Germany and to strengthen those with the CMEA countries. The general policy is still to turn increasingly to skill-intensive production and to maximize the possible gain from international specialization; but the east German authorities now stress that 1961 and 1962 must be regarded as years

of adjustment and of relative austerity³³ before a new phase of general rapid expansion — still on the lines of the 1959-1965 Plan — can begin.

Hungarian industry seems to have shown the best results in 1961 of any of the countries of the area — possibly equalled, at its rather lower stage of industrialization, by Rumania — and, by any standards of comparison, these results were very good. All main branches, with the single exception of building materials, exceeded their planned levels of output and those accorded highest priority under the long-term plan — chemicals (including rubber and plastics) and electrical and precision engineering — showed the highest rates of growth (see Table 6). Even food processing expanded fast, despite lower farm output, presumably partly because the completion of collectivization meant that a higher proportion of total output passed through industrial channels (state and co-operative bakeries, slaughter-houses, etc.), but largely because of the continuing extension of refrigeration, canning, etc., both for export and for the home market. Extraordinarily rapid growth of labour productivity was recorded in many branches, higher output per worker contributing 75-80 per cent of the large increments of output in precision engineering and chemicals as well as of the smaller average increment (12 per cent) for all heavy industry.

The rapid increases in chemicals and engineering output, just mentioned, were strongly export-oriented since increasing specialization, and the fullest possible exploitation of the opportunities offered of improving the efficiency of use of resources through international trade, remain the cornerstones of Hungarian industrial policy. Output of telecommunications equipment, plastics, and pharmaceuticals, rose particularly fast; and bauxite production — also largely for export — was well above the planned levels. Above-plan production of crude steel was an import-saver, and a 20 per cent increase in output of crude petroleum permitted oil imports to be stabilized.

Having managed to expand overall output at virtually full capacity intensity in all branches for the past two years, without any serious strains becoming apparent, the Hungarian authorities are now taking steps to discourage over-fulfilment of production plans unless both material supplies and a market for the output are assured (see section 4 below). They are also trying to extend shift working when labour is available, to avoid threats of capacity bottlenecks.³⁴

Polish industry also had a rather successful year. Plan targets were surpassed in all major branches, apart from electric power, and engineering and chemi-

³¹ No 1961 plan fulfilment report for eastern Germany is available at the time of writing so that most statements in this paragraph are based on provisional indicators of developments during the year.

³² *German Export*, No. 28, 1961, p. 3.

³³ The slogan of the production drive launched in the second half of 1961 was "Produce more in the same time for the same money".

³⁴ See the *Bulletin*, Vol. 13, No. 2, p. 5.

cals showed by far the highest rates of growth (see Table 6). Although less than planned, electricity generation increased by 10 per cent and power cuts were minimal except in the spring;⁸⁵ but special efforts are nevertheless to be made in 1962 not only to install the capacity originally planned for that year, but also to overtake the 210 MW (out of 739 MW planned) of arrears from 1961. Increasing mechanization continues to support rising output and labour productivity in coal mining, mechanical cutting and loading now accounting for more than one-third of total output. In the engineering industry, continuing technical development brought some 500 new types of machinery and equipment into series production in 1961. In the chemicals branch, output of 132,000 tons of sulphur included the first proceeds of the heavy investment in that branch (with assistance from Czechoslovakia) in past years, and output of plastics, synthetic rubber and pesticides also rose very fast. Poland and eastern Germany were the only two of the more industrialized countries of the area in which adaptation of the composition of output to the pattern of final demand permitted clothing production to accelerate; and in Poland textiles output also accelerated though shortage of cotton and of some equipment held it back in eastern Germany.

Among the less industrialized countries, Rumania recorded a particularly rapid industrial expansion — the fastest in the area. Ferrous metallurgy and the metal-using, chemicals and textiles industries all showed rates of growth of about 20 per cent or more, this rapid increase in textiles output — for the second successive year — constituting a transformation of the earlier trend in this sector. It seems to have been largely due to greatly increased supplies of home-produced synthetic fibres and rayons. The output of the food industries was less than planned and well below the average rate of increase (see Table 6), reflecting developments in agriculture.

In Bulgaria changes in branch rates of growth from year to year tend to reflect mainly the phasing of the completion of new capacities; and the slackening of growth in non-ferrous metallurgy and in the cellulose and paper branch, while output of ferrous metallurgy accelerated, can be attributed to this cause. The rate of increase of output of building materials was halved, as had been foreseen in the plan; but the growth of chemicals output slowed down rather more than had been envisaged. In general, however, plans were at least fulfilled (see Table 6). Slack export demand and large stocks in domestic trade were probably the main factors depressing textiles output, since a decline had been foreseen; but exports by the food-processing industry were supported, in the face of reduced farm output,

partly by drawing on stocks, and the increasing degree of processing also contributed to the rapid growth of global output in that branch.

The year 1961 provided an inauspicious start to the Albanian Third Five-year Plan, for the rate of industrial growth achieved (7.2 per cent) was much less than the 11.2 per cent of 1960 and below the planned annual average for 1961-1965 of 8.7 per cent. The pattern followed more or less the priorities established in this Plan;⁸⁶ and the slackening pace of expansion appears to have been general, though the building materials branch registered a remarkable upsurge in output (thanks mainly to the commissioning of a new cement factory).⁸⁷ Both the consumers' manufactures and the foodstuffs branches recorded relatively low rates of growth — lower, indeed, than the continuing priority accorded to heavy industry would alone seem to explain. In view of the country-wide campaign to promote output of mechanical spare parts, and the good results reported, it is likely that the engineering branch did much better than average; and judging from the increment in the first nine months of 1961, there was a considerable increase in output of blister copper and iron ore (66 per cent and 50 per cent respectively).

(c) Agriculture

Throughout eastern Europe and in the Soviet Union the battle for the output objectives set for agriculture in 1965 is now seriously joined; but there was virtually no net advance towards them in 1961 except in Poland, and probably in Albania. Unfavourable weather, especially for spring-sown cereals and root-crops, was largely responsible. Drought occurred during the growing seasons in the eastern part of the Soviet Union and in the southern countries of eastern Europe, some of which were also hit by pests and plant diseases; in the north-west of the region a wet harvest brought losses in some countries, where labour and machinery could not be mobilized on a sufficient scale to take full advantage of brief spells of fine weather. For the region as a whole, however, yields and output of bread grain (mostly sown in the autumn) seem to have been fairly satisfactory; yields of potatoes and sugar-beet were poor in areas which suffered from the drought, but fruit crops in the south were reported as excellent; in general, feed crops have been most adversely affected and give rise to concern about livestock production in the current year. Livestock production seems generally to have done better than crop production in 1961, though data on total output in the two branches are as yet available for only a few countries (see Table 7).

⁸⁶ See the SURVEY for 1960, Chapter VI, Table 5.

⁸⁷ In 1962 the building materials industry is to increase the output by 9.6 per cent compared with the preceding year.

⁸⁵ *Ibid.*, p. 6.

TABLE 7
Global agricultural output in eastern Europe
and the Soviet Union, 1958 to 1961

Percentage increase from preceding year

	1958	1959	1960	1961	
				Plan	Actual
Albania					
Total	-9	20	-7	..	ca. 22
Bulgaria					
Total	-0.6	18.1	3.3	12-15	-2.4
of which :					
Crop output . . .	-6.3	25.8	1.8	..	-4 *
Animal output . .	11.4	4.5	6.4	..	6 *
Czechoslovakia					
Total	2.6	-1.1	6	7.1	ca. 1
of which :					
Crop output . . .	4.6	-4.8	10	..	<0
Animal output . .	0.3	3.4	1	..	>2
Hungary					
Total	5.5	5.5	-4.9	7.9	-1
of which :					
Crop output . . .	-1.8	7.9	-6.1	10.6	-6
Animal output . .	16.9	0.3	-5.1	4.5	6
Poland					
Total	3.0	-1.0	5.5	4.3	10.2
of which :					
Crop output . . .	2.0	-1.4	8.8	2.7	11.2
Animal output . .	4.3	-0.3	0.7	6.7	8.5
Rumania					
Total	-14.8	21.1	0.7	19.0	—
of which :					
Crop output . . .	-21.5	29.0	-2.6	..	..
Animal output . .	1.7	7.0	9.4	..	..
Soviet Union					
Total	10.7	—	2.3	..	1-2 *
of which :					
Crop output . . .	14.6	-4.4	3.0	..	..
Animal output . .	4.6	6.7	-1.0	..	..

Sources : Statistical yearbooks, plans and plan fulfilment reports.

NOTE. — For the evolution of net output in Hungary and (up to 1960) in Poland, see section 4.

The Soviet Union

For the third consecutive year, global farm output has hardly risen in the Soviet Union — to judge from the details given in the plan fulfilment report. The planned "substantial increase in the gross cereals crop over that of the bumper year 1958" (141 million tons) was not achieved; but the harvest was about 2 per cent above that of 1960 (see Table 8) entirely as a result of the increase in the area, of which 1.2 million hectares was in the virgin land region (*Tselinniy Krai*).³⁸ Last year's summer drought

³⁸ See A. Byelov, *Voprosy ekonomiki*, No. 9, 1961, p. 98.

in Siberia and Kazakhstan limited production in those areas; there was apparently a more or less normal crop in the north-western regions and a record harvest (35.7 million tons) in the Ukraine, where average yields of about 21 quintals per hectare were registered.

As can be seen from the figures in Table 8, average wheat yields were practically unchanged; but maize yields again improved, offering justification for the efforts to extend the area under this crop which is still grown essentially in the European part of the Soviet Union. The cotton crop practically regained the 1959 level and yields of sunflower seeds were excellent. The area sown to sugar-beet was 29 per cent larger than in 1960, but no data on output have been published. State procurements of beet (about 95 per cent of total production in recent years) decreased by 4 million tons, but this does not necessarily indicate a crop failure; it is possible that imports of sugar have resulted in a larger part of the domestic crop being utilized as fodder — particularly since a massive extension of sugar-beet cultivation for feed purposes has been officially recommended. Production of pulses, also an object of the official campaign to produce more feeding-stuffs per hectare, increased by 48 per cent above the 1960 level.

The expansion of fodder supplies is a major objective of current policy; and special attention is now being directed towards improving the pattern of sowings. The extensive use of grassland (*travopolye*) and fallow land in the crop rotation has been severely criticized; and much concern has been expressed about the large area occupied by so-called "low-yielding crops" — oats, grass and other green fodder (apart from silage maize). Such crops occupied 47.6 million hectares of the 204.6 million sown in 1961. The increases in the area sown to them in recent years seem to have occurred mainly in the central regions

TABLE 8
Area and production of selected crops
in the Soviet Union, 1959 to 1961

	Area			Production		
	1959	1960	1961	1959	1960	1961
	Million hectares			Million tons		
All cereals . . .	119.7	121.7	128.3	125.9	134.4	137.3
of which :						
Wheat	63.0	60.4	63.6	69.1	64.3	66.2
Maize for grain . .	8.7	11.2	13.2	12.0	18.7	24.1
of which :						
Mature grain . . .	3.5	5.1	7.7	5.5	9.8	16.9
Cotton	2.15	2.19	..	4.6	4.3	4.5
Sunflower seed . .	3.90	4.19	4.23	3.0	4.0	4.7
Sugar-beet	2.75	3.04	3.92	43.9	57.7	..

Sources : *Narodnoe khozyaistvo SSSR v 1960 godu*; and plan fulfilment report.

of the RSFSR, the Baltic republics and Byelorussia, where central planning of the cereals area ceased in 1956. The intention was to leave more scope for local choice of fodder crops to support the development of livestock production, but in fact the farms in these regions appear to some extent to have abandoned cereals for grassland; and the area under grass and low-yielding green fodder rose by 8.3 million hectares between 1956 and 1960 — equal to the whole increment of the sown area during those years.³⁹ The sowing of annual grass mixed with vetches was for long considered necessary to maintain soil fertility in areas where fertilizer was virtually not available; but it is now suggested that grass should be replaced in the rotation by more efficient crops, such as maize, sugar-beet and pulses, and that the present 16 million hectares (approximately) of annual fallow could also be greatly reduced.⁴⁰

An increase of fodder supplies is one of the necessary conditions for substantially higher output of animal products, which has hardly risen since 1959, though state procurements have increased a little faster:

	Millions of tons			Percentage increase 1960 to 1961	
	1959	1960	1961	Actual	Plan
<i>Total output</i>					
Meat . . .	8.9	8.7	>8.7 ^a	^a	18
Milk . . .	61.7	61.7	62.5	1.3	13
Eggs . . .	25.6	27.4	28.9	5.0	13
<i>State procurements</i>					
Meat . . .	7.5	7.9	7.6	-4	18
Milk . . .	25.0	26.3	28.3	7.7	7
Eggs . . .	5.7	6.5	7.4	13.7	12
Wool . . .	0.35	0.36	0.37	2.8	10

Sources: Statistical yearbooks, plans and plan fulfilment reports.

^a The plan fulfilment report records "a slight increase over the 1960 level".

It is possible that slaughterings in 1961 were held back in the interest of substantially increasing the number of productive animals and so accelerating the future rise of output. The 1 January 1962 census shows an expansion of the cattle herd by 8 per cent over the preceding year and of pig numbers by 13 per cent, both rates being considerably above those of the recent past (see Table 11 below).

Inputs into Soviet agriculture have continued to increase in 1961,⁴¹ and the apparent diversion of investment resources to that sector is described in section 3 below. There were no changes in procurement prices during the year, but reductions in prices of some inputs were planned to save collective farms

³⁹ *Narodnoe khozyaistvo SSSR v 1959 godu and v 1960 godu*.

⁴⁰ See also section 6 below.

⁴¹ Data on deliveries of fertilizer and farm machinery have not yet been published; but the value of output of farm machinery rose by 28 per cent and fertilizer production (gross weight) by 10 per cent.

887 million roubles in 1961,⁴² and must have partially offset the adverse effect on farm receipts of the stagnation of output.

Efforts to improve the planning, supply and procurement mechanism in the farm sector have included the setting up, in February 1961, of a State Procurement Committee with the status of a Ministry. It is hoped thus to facilitate the co-ordination of production and state-purchase plans; and the State Procurement Committee, through its local organs, is to purchase agricultural products in future on the basis of long-term contracts with state and collective farms. At the same time, an All-Union Farm Equipment Association (*Soyuzselkhoztekhnika*) was created, with the powers of a state committee of the Council of Ministers, to act as intermediary between farms and — through Gosplan — the producers of farm equipment and materials. Following its reorganization in February 1961, the Ministry of Agriculture is to act mainly as a scientific research agency and, through Union-Republican Ministries of Agriculture, will run the experimental stations and model farms (3,200 at the present time).

Eastern Europe — crops

The only exceptions to the general picture of stagnation or slight decline of global farm output in eastern Europe in 1961 are Poland and — on the basis of provisional data — Albania (see Table 7). The extraordinary rise of global output — by over 10 per cent — in the former country was the result of simultaneously favourable conditions in both the crop and the livestock sectors; but in all the other eastern European countries except Albania crop production showed a decline, particularly pronounced in Bulgaria and in Hungary. However, the animal sector seems everywhere to have exercised some counterbalancing influence, as it could rely during 1961 on a carry-over of fodder stocks from 1960.

The bread-grain harvest in 1961 surpassed that of the previous year in Albania, Czechoslovakia, Hungary and Poland; and this was largely due to good yields (see Table 9). Albania was, however, an exception, and almost the whole of the 41 per cent increase in the crop was due to increased sowings.⁴³ Improved seeds, better fertilizer supplies and mechanization all contributed to the good results in Hungary. In eastern Germany the shortage of labour at harvest time appears again to have caused losses to the crop, as it could not be brought from the fields during the short spells of dry weather; moreover, in many

⁴² See the SURVEY for 1960, Chapter IV; p. 50.

⁴³ Driving towards self-sufficiency in farm products, the Albanian authorities are advocating a vigorous extension of double and triple cropping (*Zeri i popullit*, 3 October and 2 December 1961). See also section 5 below.

TABLE 9

Production and yields of some basic crops in eastern European countries, 1959 to 1962 Plan

Output in millions of tons, and yields in quintals per hectare

		Production				Yields			
		1959	1960	1961	Plan 1962	1959	1960	1961	Plan 1962
Albania	Bread grain	0.31	0.22	0.30	0.40	11.9	..	..	..
Bulgaria	Bread grain	2.53	2.46	2.07	2.54	..	..	..	..
	of which : Wheat	2.43	2.38	2.01 *	..	17.4	19.1	..	19.0
	Coarse grain	2.31	2.33 *	2.17	2.68	..	..	..	..
	of which : Maize	1.51	1.51	1.43	..	20.2	25.3	22.2	24.5
	Sugar-beet	1.45	1.65	1.43	1.83	217.0	245.3	..	..
	Sunflower seed	0.28	0.34	0.30	0.41	11.7	14.5	..	14.7
Czechoslovakia	Wheat	1.65	1.50	1.63	1.73	22.9	23.3	25.5	24.5
	Rye	0.97	0.90	0.96	1.04	20.3	20.8	20.7	21.5
	Barley	1.47	1.75	1.59	1.65	21.9	24.8	22.8	23.5
	Oats	0.93	1.02	0.95	0.86	18.4	20.4	20.6	21.3
	Maize	0.50	0.57	0.52	0.69	28.0	30.5	26.2	31.5
	Potatoes	6.33	5.09	5.64	7.13	108.7	90.0	109.5	135.0
	Sugar-beet	4.95	8.37	6.75	7.37	205.6	346.3	267.6	310.3
Eastern Germany	Wheat	1.37	1.46	1.35 *	..	31.5	37.8	..	..
	Rye	2.13	2.13	2.07 *	..	20.7	22.5	..	..
	Barley	1.04	1.27	..	..	29.4	32.6	..	..
	Potatoes	12.44	14.82	..	..	161.3	192.4	123.7	..
	Sugar-beet	4.66	6.84	..	..	198.9	287.6	..	..
Hungary	Wheat	1.91	1.77	1.94	..	17.1	16.9	19.1	..
	Barley	1.09	0.99	0.99	..	20.2	20.0	19.0	..
	Maize	3.56	3.50	2.81	..	26.3	25.1	20.4	..
	Potatoes	2.37	2.66	1.67	..	103	105	70	..
	Sugar-beet	2.68	3.37	2.35	..	220	254	181	..
	Sunflower seed	0.12	0.07	0.11	..	11.8	9.7	8.2	..
Poland	Four grains	14.12	14.27	15.50	15.39	15.7	16.1	18.1	17.1
	of which : Wheat	2.48	2.30	2.82	..	17.3	16.9	20.1	..
	Rye	8.11	7.88	8.35	..	15.6	15.4	17.1	..
	Barley	1.04	1.31	1.35	..	16.2	18.3	19.9	..
	Oats	2.48	2.77	2.97	..	14.7	16.9	18.5	..
	Potatoes	37.70	37.86	45.30	40.60	128	132	161	145
	Sugar-beet	5.98	10.26	11.60	11.12	159	256	272	265
Rumania	Bread grain	4.00	3.55	3.35	4.65	..	..	..	..
	Maize	5.68	5.53	5.50	6.65	16.0	15.5	17.0	..
	Sugar-beet	3.45	3.40	2.80	..	171	170	..	..
	Sunflower seed	0.53	0.52	0.48	..	10.0	10.7	..	..

Sources : Statistical yearbooks, plans and plan fulfilment reports; *Rabotnichesko delo*, 2 November 1961; and *Neues Deutschland*, 14 February 1962; and direct communication from the Czechoslovak Government (for 1961 and 1962 Plan).

"Type I" co-operative farms the 1961 harvest was the first under new institutional arrangements, involving unavoidable difficulties of transition. In Poland, on the other hand, rather difficult harvest conditions in some areas seem to have been overcome by a successful mobilization of supplementary labour and of equipment. The coarse-grain harvest was generally inferior to that of 1960 except in Poland; and in the few cases outside that country where yields were good

(maize in Rumania, for example), the improvement was more than offset by a fall in the area sown.

The 11.4 million tons of sugar-beet produced in Poland constituted a record crop; and sugar production in 1961 exceeded 1.5 million tons, which will provide about 650,000-750,000 tons for exports and for increases in stocks. No results of the beet harvest are available for eastern Germany, but it is reported to have been much delayed by shortages of labour.

TABLE 10

Output of some livestock products in five eastern European countries, 1959 to 1962 Plan

Meat and wool in thousands of tons, milk in millions of litres, eggs in millions

Country	1959	1960	1961		Plan 1962
			Plan	Actual	
Bulgaria					
Meat	481	417	..	467	515
Milk	1 000	1 081	..	1 165	1 309
Eggs	959	1 221	..	1 343	1 364
Wool	19	21	..	22	24
Czechoslovakia					
Meat	903	930	1 002	967	1 104
Milk	3 658	3 715	4 225	3 826	4 060
Eggs	2 135	2 267	2 660	..	2 759
Eastern Germany					
Milk	5 826	5 730	..	5 212 ^a	..
Hungary					
Meat	435	420 *	..	430 *	..
Milk	1 930	1 899	..	1 900 *	..
Wool	8 038	8 285	..	9 100 *	..
Poland					
Meat	..	2 150	2 350	2 389	2 597
Milk	11 944	12 124	12 300	12 500	12 830
Eggs	5 127	5 589	..	6 075	6 520
Wool	9.2	9.0	9.3	9.1	9.1

Sources : Statistical yearbooks, plans and plan fulfilment reports; *Rabotnichesko delo*, 2 November 1961.

NOTE. — All figures for meat are in terms of live weight.

^a 11 months.

In most other sugar-producing countries, total output was smaller than in 1960, both yields and area declining in Czechoslovakia and Hungary, though the sugar content is reported to have risen by 16 per cent in the latter country. In Bulgaria and Rumania also the prolonged drought seriously reduced yields.

The Polish potato crop was also a record — yields reaching the extraordinarily high level of 161 quintals per hectare (even the long-term plan called for yields of only 155 quintals by 1965); and supplies of selected seeds are said to have contributed to these results, which assure good fodder supplies for 1962. In Czechoslovakia an increase in potato production of 11 per cent was recorded; but east German yields were very poor as a consequence of bad weather during both planting and harvest, and in all southern countries potato yields were severely affected by drought. In Hungary, for instance, 1961 yields were only 75 per cent of those obtained in the previous year.

Sunflower seed production fell in Bulgaria and Rumania, climatic conditions being unfavourable to

sowings in the latter country, so that the total area declined, though satisfactory yields reduced the impact on output. In Hungary, however, the 1961 sunflower seed crop exceeded that of the previous year by nearly 60 per cent, the area having expanded by 84 per cent.

Fruit production has been good to excellent in the southern countries, but poor in Czechoslovakia and eastern Germany. There was a considerable increase in exports from Bulgaria, while the tomato crop in that country was about 13 per cent larger than in 1960. Average grape yields in Hungary, Bulgaria and probably Rumania were smaller than in the previous year, although it is expected that the quality of the 1961 wines will be excellent.

Eastern Europe — livestock

Output of animal products increased in those eastern European countries for which data are available; and the numbers of productive livestock expanded at the same time as efforts were made to improve the breeds and to eliminate low-yielding animals (see Tables 10 and 11).

Considerable increases in meat production were achieved in Poland and Bulgaria, and Hungary seems to have overcome its meat production crisis. Pig-meat production in Poland was more than 14 per cent higher than in 1960, and numbers also rose — a trend which should easily be sustained in 1962 by the excellent fodder supplies already mentioned. In Hungary the October census indicated an increase in the pig population of more than 15 per cent over the 1960 level; and numbers also increased in eastern Germany, but remained stationary in Bulgaria and fell slightly in Czechoslovakia.

Cattle herds increased in all countries except eastern Germany; and the rapid increases in Bulgaria of 13 per cent in 1960 and nearly 8 per cent in 1961 suggest that a decisive improvement in that country's livestock situation has at last begun.⁴⁴ The area under fodder grass in Bulgaria is planned to increase, livestock farms are being reorganized into larger units to encourage specialization, and a further transfer of animals to the socialist sector will probably take place, as the state is granting credits to collective farms for purchase of animals in private ownership. In Rumania also, the state is financing livestock purchases by the collective farms and construction of cowsheds.⁴⁵ Beef production in Poland has made big strides in recent years; and this is due not only to increasing numbers and an improving fodder situation, but also to many years' efforts to improve breeding stock, artificial insemination being now applied to

⁴⁴ See the SURVEY for 1960, Chapter VI, pp. 31-32.

⁴⁵ See the *Bulletin*, Vol. 13, No. 2, p. 85.

TABLE 11

**Livestock numbers in eastern European countries
and the Soviet Union, 1959 to 1962 Plan**

*Total numbers in thousands and (in italics) percentage share
of state and co-operative farm herds in the total*

Country	Cattle	of which : Cows	Pigs	Sheep ^a
Bulgaria ^b				
1959	1 458	509	2 266	8 769
	<i>66.5</i>	<i>55.0</i>	<i>72.9</i>	<i>70.4</i>
1960	1 642	547	2 553	9 333
1961	1 765	580	2 550	9 600
Plan 1962 . . .	1 905	635	2 565	9 850
Czechoslovakia				
1959	4 303	2 072	5 687	727
	<i>72.3</i>	<i>60.8</i>	<i>65.8</i>	<i>69.2</i>
1960	4 387	2 047	5 962	646
	<i>77.8</i>	<i>67.0</i>	<i>71.3</i>	<i>72.0</i>
1961	4 518	2 062	5 895	..
Plan 1962 . . .	..	2 122	..	..
Eastern Germany				
1959	4 465	2 158	8 283	2 115
	<i>38.8</i>	<i>29.0</i>	<i>40.6</i>	<i>46.2</i>
1960	4 675	2 175	8 316	2 015
	<i>54.8</i>	<i>45.2</i>	<i>53.6</i>	<i>58.2</i>
1961	4 561	2 179	9 282	..
Hungary				
1959	2 002	941	8 012	2 155
	<i>20.5</i>	<i>18.2</i>	<i>15.8</i>	<i>65.2</i>
1960	1 969	907	7 295	2 381
	<i>34.2</i>	<i>28.2</i>	<i>25.4</i>	<i>76.8</i>
1961	2 012	904	8 423	2 643
	<i>44.3</i>	<i>36.0</i>	<i>35.5</i>	<i>84.9</i>
Plan 1962 . . .	..	915	..	2 870
Poland				
1959	8 353	6 025	11 209	3 778
	<i>10.8</i>	<i>8.7</i>	<i>10.1</i>	<i>10.9</i>
1960	8 695	5 885	12 615	3 662
	<i>11.5</i>	<i>9.3</i>	<i>10.6</i>	<i>11.8</i>
1961	9 168	5 915	13 434	3 494
	<i>17.1</i>	<i>8.3</i>	<i>9.2</i>	<i>28.0</i>
Plan 1962 . . .	9 620	6 010	14 250	3 510
Rumania				
1959	4 450	2 156	4 300	11 200
1960	4 530	2 246	4 300	11 500
	<i>18</i>	<i>12</i>	<i>29</i>	<i>29</i>
Soviet Union (millions)				
1959	74.2	33.9	53.4	144.0
	<i>65.2</i>	<i>49.6</i>	<i>71.9</i>	<i>75.0</i>
1960	75.8	34.8	58.7	140.3
	<i>68.6</i>	<i>52.9</i>	<i>71.8</i>	<i>75.2</i>
1961	81.9	36.3	66.4	144.1
	<i>71.1</i>	<i>55.4</i>	<i>74.1</i>	<i>75.6</i>

Sources : Statistical yearbooks, plans and plan fulfilment reports; *Mezőgazdasági Statisztikai Zsebkönyv 1961*, pp. 135-137; *Rabotnichesko delo*, 2 November 1961.

NOTE. — End-of-year censuses in Bulgaria, Czechoslovakia, Rumania and the Soviet Union. October censuses in Hungary for total numbers, except for sheep, where figures refer to March censuses; March censuses for percentage share of socialist sector; July censuses for Poland. December censuses for eastern Germany in 1959 and 1960, October census in 1961.

^a Including goats in the Soviet Union.

^b Figures for total cattle in Bulgaria include buffaloes.

30 per cent of all cows. A small fall in the number of cows was registered in eastern Germany and Hungary in 1961; but in Czechoslovakia slaughterings of low-yielding animals (which occurred also in Hungary) contributed to a virtual stabilization of numbers, though the plan had called for a rise to 2.14 million. In Albania there was a small increase in the numbers of cattle and sheep in 1961, and efforts are being made to improve the fodder base in that country also.

Inputs and institutional developments

Investment in agriculture rose in most countries of the area in 1961. There was a 2 per cent increase in Czechoslovakia, where 5.3 billion kčs of the 7.3 billion kčs of total outlays went to co-operative farms; and mechanization represented 41 per cent of the total. In Poland the overall increase was only slightly less rapid — 8 per cent — and there too mechanization increased, machinery deliveries rising by 12 per cent in value. Land melioration received increased funds (37 per cent more than in 1960) and 31,000 hectares of land were drained while drainage works were renewed on 72,000 hectares, representing an increase of 70-80 per cent in such work by comparison with 1960. In Rumania, the tractor park increased by 29 per cent and the stock of combine harvesters by 26 per cent; and the special credits for building up collective-farm herds have already been mentioned. The Albanian tractor park increased by nearly 15 per cent.

In both Hungary and Bulgaria reductions in investment in agriculture had been planned, and probably occurred in 1961. The major part of outlays in both countries went to mechanization ⁴⁸ and irrigation — the tractor parks increasing by, respectively, 12.9 and 10.4 per cent and the irrigated areas by 41 and 20 per cent — and state credit was available to finance the building up of collective livestock herds.

Fertilizer supplies were generally increased; and even in Czechoslovakia, where the rate of overall application did not rise, the composition improved. A 4 per cent increase in the rate of application per hectare was reported in Bulgaria and increases of 26 and 7 per cent respectively in total consumption in Hungary and Poland.

In the institutional field, the virtual completion of collectivization in most countries (so far as land use is concerned) by the end of 1960 has turned attention now to such questions as the organization of the livestock sector and farm size. The share of the socialist sector in total livestock has been increasing in those countries for which recent data are available (see

⁴⁸ In Hungary this contributed to a rise from 52 to 67 per cent of the grain area mechanically harvested.

Table 11) and the situation last year may be summarized as follows :

Percentage shares of the socialist sector

	In total agricultural land in 1961 ^a	In total productive livestock ^b
Albania	90	74
Bulgaria	97	76
Czechoslovakia	88	55
Eastern Germany	90	42
Hungary	96	15
Poland	13	22
Rumania	86	73
Soviet Union	99	

Sources : As for Table 11.

^a For Bulgaria of cultivable land; for Albania, Hungary and Rumania of arable land. Figures include the private plots of co-operative farmers; in Hungary, for example, state farm land and the common land of co-operative farms is 82 per cent of total.

^b Cattle, pigs and sheep, converted to livestock units at the following respective rates: 0.6, 0.25, 0.1; and based on the latest data shown in Table II.

The building up of collective and state herds is everywhere being encouraged, as is the surrender of privately owned livestock and the individual plots of co-operative farm members in some countries; ⁴⁷ but the authorities seem to be proceeding slowly in this direction so as to avoid adverse effects on output.

In Poland co-operation in the farm sector is being strongly encouraged by a variety of means, including priority allocations of farm supplies and tax and credit policies. Existing co-operative farms, though few, are officially supported; the agricultural circles are increasing in number and importance; MTS are encouraged to undertake work for private farmers; supply, purchasing and credit co-operatives are extremely active, and an interesting recent innovation is the joint cattle breeding initiated by dairy co-operatives, often using cowsheds abandoned by co-operative farms dissolved in 1956. However, the small socialist sector in Polish farming is dominated by the state farms; and although their contribution to global agricultural out-

put hardly amounts to 10 per cent, they provided 25 per cent of the grain, 16 per cent of the potatoes, and 14 per cent of the sugar-beet purchased by the state in 1960. Efforts are now being made to expand their livestock production: their cattle population rose by 18 per cent in 1961, and a further expansion of 12 per cent is planned for 1962.

On farm size, there is renewed discussion in the Soviet Union, and an all-Union conference on the question how to define the optimum size of an agricultural enterprise was held in Moscow on 14-18 September 1961, after attention had been drawn to some existing irrationalities at the plenary session of the Central Committee of the Communist Party in January 1961.⁴⁸ The meeting seems to have reached only rather general preliminary conclusions — on the lines that any decision on farm size must be related to the physical possibilities of mechanization. In the eastern European countries changes are still mostly in the direction of larger enterprises. In Czechoslovakia the average size ⁴⁹ of co-operative farms increased from 453 hectares in 1960 to 546 hectares in 1961; in Hungary the average size was 780 hectares in June 1961, as against 400 hectares two years earlier; in Rumania a target size of 1,500-2,500 hectares (1,000-1,500 in hilly areas) has been set for collective farms, which now average about 950 hectares,⁵⁰ and in Bulgaria special efforts are being made to enlarge livestock farms. In eastern Germany many cases have been reported of large-scale enterprises being established without the necessary basis of machinery and technicians; and at present it is not considered desirable to try to develop all Type I co-operative farms into the more advanced Type III, as the material means are not available.

⁴⁸ See A. Chernov, *Voprosy ekonomiki*, No. 12, 1961, pp. 145-149.

⁴⁹ Though the average size of the — formerly very large — state farms was reduced in 1960 (see the SURVEY for 1960, Chapter IV, p. 7).

⁵⁰ See the *Bulletin*, Vol. 13, No. 2, p. 88.

⁴⁷ On this objective in the Soviet Union, see section 6; and on Czechoslovakia, see the *Bulletin*, Vol. 13, No. 2, pp. 16-17.

3. INVESTMENT, PERSONAL CONSUMPTION AND FOREIGN TRADE

(a) Investment trends and structure

The provisional and, in most cases, incomplete investment data so far available suggest that only Rumania managed in 1961 to sustain the high rate of expansion of capital formation of the preceding few years.⁵¹ In Hungary, the planned cut in state and

co-operative investment of around 20 per cent materialized; and centrally planned outlays in Bulgaria and apparently total outlays in eastern Germany rose by about 3 per cent. This rate represents a considerable deceleration in both countries, and particularly in Bulgaria where centrally planned investment rose by nearly 50 per cent in 1959 and by more than 20 per cent in 1960. There the slowing down was a

⁵¹ For most countries data on investment in Table 14 below cover state or centrally planned investment outlays. These are everywhere the bulk of the total, but changes in private and/or decentralized investment may have been important enough to influence the shares of capital formation in national income.

No data on investment in 1961 have been published for Albania; but the volume of construction work was reported to have increased by 13.9 per cent, indicating that the downward trend in investment in 1960 has been reversed.

TABLE 12
Investment outlays in the Soviet Union, 1958 to 1961

Billions of roubles and percentage increases

	Billion roubles at 1955 prices				Percentage increase over preceding year			
	1958	1959	1960	1961	1958	1959	1960	1961
<i>All investment outlays</i> ^a	30.0	34.0	36.7	38.1 *	16	13	8	4 *
State and co-operative enterprises and institutions (excluding collective farms)	24.5	27.4	30.8	32.5	13	13	12	5½
<i>of which :</i>								
Under central plan	20.5	22.7	25.7	28.0 ^b	8	11	13	9 ^b
Enterprise fund and other non-centralized sources .	4.0	5.7	5.1	4.5	5	43	-11	-12
Collective farms	2.8	3.5	3.2	3.2 *	27	25	-9	— *
Private construction	2.7	3.1	2.7	2.4 ^c	35	15	-13	-10 ^c

Sources: *Kapitalnoe stroitel'stvo v SSSR*, 1961, p. 31; *Narodnoe khozyaistvo SSSR v 1960 godu*, pp. 588-589; plans and plan fulfilment reports.

^a Excluding expenditures on capital repairs, geological research, research on town and country planning and design of construction, growth of forests and expansion of livestock. Private construction (and therefore also the total of investment outlays) excludes expenditure on the construction of private villas (*dachi*).

^b A 14 per cent rise was planned for 1961 and an increase of 8.1 per cent (to 30.6 billion roubles) is planned for 1962, both figures excluding expenditure on design of projects (*Proektno-izyskatelskie raboty*).

^c Private urban construction, in terms of living area, fell by 11 per cent, and in rural areas the number of completed houses went down from 618,000 in 1960 to "around 500,000" in 1961.

premeditated policy;⁵² but in eastern Germany the investment plan seems to have been under-fulfilled by a large margin. A slackening of investment growth was also noticeable in Czechoslovakia and the Soviet Union. In the former country, the plan for a 10 per cent expansion of total fixed investment outlays was 3 per cent under-fulfilled. In the Soviet Union the intended acceleration of centrally planned outlays did not materialize, an increase of 9 per cent contrasting with the 14 per cent planned; and as other investment from non-centralized sources rose still less, the rate of growth of the total probably did not exceed 4 per cent.

This general deceleration of investment expenditure accompanied a slowing down of the expansion of national income in most countries of the area. It may be deduced, from the sharp cut in state and co-operative investment outlays in Hungary, that the share of investment in national income declined in that country; and the share seems also to have fallen—to a smaller extent—in the Soviet Union and eastern Germany. In Rumania, data on investment in the state sector indicate an opposite trend for at least the last three consecutive years. In Bulgaria, Czechoslovakia and Poland, national income and investment seem to have moved in parallel in 1961, after two years of noticeably faster expansion of investment—particularly in Bulgaria (see Table 14 below).

⁵² At least as far as the original goal of the 1961 plan was concerned. It seems, however, that this target was raised considerably during the year, since the 3 per cent increase in centrally planned investment registered in the plan fulfilment report is said to have fallen short of the plan by 8 per cent (see also footnote a to Table 15).

Investment in the Soviet Union

Although, as mentioned above, centrally planned state investment outlays in the Soviet Union rose less than was foreseen in the annual plan (the extent of under-fulfilment being about the same for construction and for equipment), they seem, nevertheless, to have been greater than envisaged for the year 1961 in the Seven-year Plan. However, expenditure on investment projects financed from enterprise funds and from other non-centralized sources fell by 12 per cent for the second consecutive year, so that the total of state and co-operative investment (excluding investment by collective farms) increased in 1961 by 5-6 per cent—markedly less than in the preceding years. Moreover, there are grounds for believing that, among the remaining two investment categories, collective farm investment remained at about the 1960 level and private housebuilding fell considerably. The net effect of these changes is that the total of investment outlays could not have increased by more than 4 per cent, which is a most unusually slow rate for the fast-growing Soviet economy. The full picture of changes since 1958 is shown in Table 12.⁵³

Two features of these data help to explain the reduced rate of growth of total investment in the Soviet Union in 1961. The policy of decentralizing some investment decisions—the effects of which in 1958 and in 1959 are shown in the rapidly expanding volume of investment carried out through enterprise funds and other non-centralized means of financing

⁵³ Complete series of data on total investment outlays and their composition have recently been published, for the first time, in *Kapitalnoe stroitel'stvo v SSSR*, 1961.

— seems to have been reversed in 1960 and in 1961, the volume of such expenditures being severely cut in both years. Secondly, other types of investment expenditure only loosely controllable from the centre — that of collective farms and of private individuals on housing — were also encouraged before 1960, but such outlays have since been reduced. In the case of collective farms this was undoubtedly due to the very small improvements of agricultural output and farm income in 1960 and 1961;⁵⁴ but the decline in private housebuilding has reflected a policy decision implemented by, *inter alia*, the cessation of government loans for this purpose⁵⁵ and a decline in this type of expenditure can thus be expected to continue.

These re-centralization measures, which raised the share of centralized investment from around two-thirds in 1959 to nearly three-quarters in 1961, should help to lessen the excessive dispersal of investment resources which has repeatedly been stated to account for the widening gap between total investment outlays and the volume of completed construction. The volume of non-completed construction in the whole economy is estimated⁵⁶ to have increased by 10 per cent in 1959 and by 13 per cent in 1960, whereas that of commissioned fixed assets rose only by 3 per cent and 9 per cent respectively;⁵⁷ and the following figures illustrate the situation in some branches of industry:

Industrial branch	Investment outlays	Non-completed construction
	Percentage increase 1959 to 1960	
Oil and gas	11	21
Engineering	18	25
Chemicals	35	54
Timber, paper and woodworking .	3	22

There were 101,000 building sites (under the central plan) in 1960 and more than 400,000 investment projects under way (including those from decentralized funds), the latter with a low average of about ten workers per project.⁵⁸ The dispersal of investment resources has assumed such proportions that Mr. Khrushchev has suggested that "what we ought to do, apparently, is to stop new projects for some time — say a year — and to turn all available resources to the completion of projects already started. The only exceptions allowed should be for especially important projects, and then only with the permission of the all-Union Government."⁵⁹

Other reasons for the shortfall on construction plans in 1961 (mentioned in the plan fulfilment report)

⁵⁴ See the SURVEY for 1960, Chapter IV, p. 50.

⁵⁵ *Ibid.*, Chapter II, p. 25.

⁵⁶ By B. Smekhov, *Ekonomicheskaya gazeta*, No. 5 (29 January) 1962.

⁵⁷ It increased by 8 per cent in 1961.

⁵⁸ Smekhov, *op. cit.*

⁵⁹ *Pravda*, 18 October 1961.

include delays in delivery of equipment to the building sites, bad timing in the preparation of blue-prints and under-utilization of machinery on the sites; and shortage of some materials had been mentioned earlier (see section 2). It seems also that difficulties in utilizing the allocated funds were experienced in some eastern and southern regions because of insufficient labour supply,⁶⁰ and to remedy this, new projects in 1962 will be authorized only if the necessary manpower is assured.⁶¹ Criticisms have been mounting of the existing premium system, which is linked to investment expenditure rather than to the completion of projects,⁶² and financial appropriations are often much larger than the capacity of the construction agencies to spend them on the precise assortment of raw materials and other goods needed for quick completion of projects (because of specific shortages). A wide margin between money outlays and the value of capacity commissioned is thus understandable.⁶³

Few details of the sector composition of investment in 1961 are yet available; but it is clear that, for the second year running, a shift of centrally disposable resources towards agriculture has been taking place, more than offsetting the fall in collective-farm investment since 1959. As in 1960, state investment in agriculture rose by 22 per cent, and in both years this represented a very considerable over-fulfilment of the original plan target. This evident change in investment policy was particularly striking in 1961, when the over-fulfilment of state agricultural investment plans contrasted vividly with under-fulfilment in the economy as a whole and — it seems — in most other sectors, including industry. In transport, outlays were about 8 per cent less than foreseen; and in housing and some of the other "non-productive" sectors completions failed to meet the targets by a wide margin, indicating some under-fulfilment of expenditure plans — though perhaps by only small amounts, in view of the gap between outlays and completions mentioned above.

In industry, outlays in chemicals, engineering and light industry certainly rose faster than the industrial average in 1961, showing increases of 13-18 per cent (see Table 13). In light industry the rate of growth was much above those of the two preceding years,

⁶⁰ Particularly large under-fulfilment of investment plans occurred in the following republics: Turkmenia — 23 per cent, Azerbaidzhan — 19 per cent, and Armenia — 16 per cent. (*Stroitel*, No. 2, 1962.)

⁶¹ Another condition is that approach roads, electricity and water supply are available. See V. Dymshits (First Vice-Chairman of the USSR Gosplan), in *Ekonomicheskaya gazeta*, No. 20 (18 December) 1961.

⁶² See, for example, B. Sokolov in *Voprosy ekonomiki*, No. 9, 1961.

⁶³ See statements by L. Lybennikov and A. Arakelyan during the debate in the Supreme Soviet on the 1961 Plan (*Izvestia*, 23 December 1960).

TABLE 13
Industrial investment in the Soviet Union, 1958 to 1962 Plan
Percentage increase over preceding year

Branch of industry	1958	1959	1960	1961		1962 Plan
				Plan	Actual	
<i>All industry</i>	13	15	11	..	9 ^a	..
<i>Group A</i>	12	15	10	..	..	..
Ferrous metallurgy	36	25	12	31	8	10.6
Chemicals	14	53	35	42	13	18
Oil and gas	23	14	11	16	8	..
Coal	-4	-6	-4	..	..	..
Electric power	9	2	4	25	7	11.3
Machine-building	2	19	18	40	14	13.9
Building materials and building industry	15	20	15	..	1	..
Timber, paper and woodworking	5	14	3	..	..	13.5 ^b
<i>Group B</i>	22	16	17	..	..	..
Light industry	28	1	16	54	18	33.5
Food industry	18	28	18	..	..	..

Sources: *Kapitalnoe stroitel'stvo v SSSR*, 1961; plans and plan fulfilment reports.

^a Increases in the sum of investment outlays in the branches for which rates of expansion were specified in the plan fulfilment report. These branches accounted for nearly 70 per cent of total industrial outlays in 1960.

^b Timber industry only.

and in machine-building it fell only slightly; but outlays on the building materials industry failed to rise in 1961 after at least three years of rapid expansion. A marked reduction of the rates of growth of investment occurred in ferrous metallurgy and chemicals. On the whole, it is clear that the actual performance in 1961 did not approach the admittedly ambitious plan targets shown in the table. The margins of difference are so wide that they suggest that the initial plans for industrial investment may have been reduced in the course of the year, partly in order to allow a reallocation of resources to agriculture.

This picture of some shifts, shortcomings and disappointments must, however, be seen within the framework of the tremendous investment effort at present undertaken in the Soviet Union. Thus the total volume of investment outlays in the one year 1961 was very nearly equal (at comparable prices) to that recorded for the whole period 1928-1940, and it is hardly conceivable that an undertaking of such magnitude could proceed without any strains and stresses requiring modifications of planned timing, location and composition.

More than 800 large industrial enterprises were put into operation in 1961. Electricity generating capacity was expanded by 7 million kW or by more than 10 per cent.⁶⁴ The world's largest hydro-electric plant, with

a full capacity of 2.5 million kW, was commissioned on the Volga, and first aggregates were put into operation in a number of plants under construction, such as one at Bratsk and one on the river Kama; the largest thermal electric station in Europe — Pridneprovskaya GRES — with a capacity of 1.2 million kW, is now in full operation. Gas and oil pipeline construction totalled 7,800 kilometres; nearly 1,000 kilometres of railway track was laid and nearly 2,000 kilometres of track was electrified, including that completing the conversion of the Trans-Siberian railway as far as Irkutsk. In the textiles industry, about 500,000 spinning frames were installed (about 45 per cent of the total in the years 1956-1960).

Investment outlays in eastern Europe

After three years of an extremely rapid expansion of investment outlays in both Bulgaria and Hungary, only a small further expansion followed in Bulgaria in 1961 and a 20 per cent cut was applied in Hungary, doubtless dictated in part by the need to consolidate the gains of the preceding years, and in part by the desire to enlarge somewhat the part of the national cake destined for immediate consumption — the 1961 plans of these countries having apparently envisaged a reduction in the share of investment in distributed national income.⁶⁵ In the event, and

⁶⁴ This addition to capacity seems to be greater than the increase in investment outlays in this branch (7 per cent), suggesting a reduction in the volume of uncompleted construction. However, *Stroitel*, No. 2, 1962, states that the increment of generating capacity was 6.33 million kW, of which 1.73 million were thermal and 1.60 million hydro capacity.

⁶⁵ In Bulgaria, the ratio of fixed investment outlays (including capital repairs) to distributed national income increased from some 17 per cent in 1957 to some 26 per cent in 1960, and in Hungary net investment, excluding uncompleted projects, rose from 14.9 per cent of distributed national income in 1958 to 18.3 per cent in 1960.

TABLE 14

National income and investment outlays in eastern Europe and the Soviet Union, 1959 to 1962 Plan

Percentage increase over preceding year

		1959	1960	1961		1962 Plan
				Plan	Actual	
Albania	National income produced	17	3	..	ca. 10	15
	State investment outlays	14	-7 ^a	..	..	..
Bulgaria	Distributed national income	29	3	12 ^a	2 ^a	10 ^a
	Total investment (at current prices) ^a	60	18	..	3	11 ^a
	Centrally planned investment outlays	48	22	5 ^b	3	11 ^c
Czechoslovakia	National income produced	6	8	8	7	..
	Total investment outlays	20	13	10	7	..
Eastern Germany	National income produced (at current prices)	9	5	..	..	..
	Total investment outlays (at current prices)	16	9	9	2.5 ^d	..
Hungary	National income produced	7	10	7	5-6 ^a	9
	State and co-operative investment outlays	40	17	-18	-20	16
Poland	National income distributed	7	3	3.5	8	7
	All investment outlays	17	7	9	8 ^a	10
Romania	National income produced	13	8	15	10	..
	Investment outlays in the socialist sector	17	26	24	21	..
Soviet Union	National income	8	8	9	7	8.6
	Total investment outlays ^f	13	8	..	4 ^a	..

Sources: Statistical yearbooks, plans and plan fulfilment reports; Zeri 1, *op. cit.*, 15 December 1961; *Kaplan*, *op. cit.*, 2 November 1961; *Kaplan*, *op. cit.*, 1962, p. 12.

^a Excluding private investment.

^b See footnote a to Table 13.

^c Planned increase over the actual 1961 investments would amount to 18 per cent.

^d Increase in "basic means of production" during the first 11 months of the year.

^e Investment outlays in the socialist sector (including outlays of industrial co-operatives, agricultural circles and housing co-operatives).

^f For coverage see note a to Table 2.

for the same reason—bad weather conditions and reduced output in agriculture—national income failed to rise in either country by the increment foreseen and gains by the consumption sector at the expense of capital formation did not materialize to the planned extent (see Table 14).

Within the 3 per cent increase in centrally planned investment outlays registered in 1961 in Bulgaria, outlays in industry rose by 11 per cent, raising the share of this sector from 58 per cent to 64 per cent of the total between 1959 and 1961; and the 1962 Plan foresees its further increase to about 70 per cent.

The relaxation of the investment effort in Hungary led—as had been hoped by the authorities—to the concentration of financial means and building materials on fewer projects than in the preceding years and to a decline in the volume of unfinished construction. This reversed the past trend, when the volume of non-completed construction was, as a rule, increasing faster than investment outlays or installed capacities. No information on the structure of investment is available at the time of writing, but the actual pattern is

likely to be close to that planned, which implied large cuts in all sectors except industry.⁶⁶

In Czechoslovakia, within an increase of 7 per cent in total outlays, efforts to change the balance in favour of centralized, rather than decentralized, projects were again largely unsuccessful.⁶⁷ Plans for the former were under-fulfilled by 8 per cent whilst those for the latter were exceeded by 6 per cent. This meant that a number of investment projects of national importance were not commissioned, whereas housing plans were over-fulfilled, particularly for private dwelling construction.⁶⁸ The 1961 plan fulfilment

⁶⁶ Centrally planned fixed investment outlays in Hungary
In billions of forints

	Industry	Agriculture	Transport	Housing	Other
1960	15.0	7.6	4.5	3.3	7.1
1961 Plan	14.7	5.5	2.8	2.5	5.2
1962 Plan	15.2	6.0	3.6	2.6	7.4

Sources: *Statistical évkönyv*, 1960, pp. 62-63; *Figyelő*, 3 January 1961; *Népszabadság*, 24 December 1961.

⁶⁷ See the SURVEY for 1960, Chapter II, p. 12.

⁶⁸ Private housing construction accounted for 36 per cent of the total in 1961, and the plan in this sector was exceeded by 25 per cent. Within plans for the state and co-operative sectors were not fulfilled.

TABLE 15

Investment outlays by sector in Bulgaria, Poland, Rumania and the Soviet Union

Percentage increase over preceding year

		1959	1960	1961		1962 Plan
				Plan	Actual	
Bulgaria	Centrally planned investment	48	22	5 ^a	3	11
	Industry	44	20	..	11	28
	Agriculture	77	35	..	..	..
	Transport and communications	29	12	..	..	..
Poland	All investment	17	7	9	8 ^b	10
	Industry	17	4	12	12 ^b	13
	Construction	22	28	-7	-10 ^b	3
	Agriculture	8	10	15	14 ^b	15
	Transport and communications	26	17	16	14 ^b	10
	Trade	35	—	-14	-1 ^b	-3
	Housing	10	4	3	8 ^b	3
	Education	25	20	12	-4 ^b	8
	Health	33	7	2	-7 ^b	5
Rumania	Investment in the socialist sector	17	26	24	21	..
	Industry	9	29	..	22	..
	Agriculture	31	10	17	23	..
	Social and cultural	19	11	19	.. ^a	..
	Housing	10	50	..	18	..
Soviet Union	Centrally planned investment	11	13	14	9	8.1
	State and co-operative outlays (excluding collective farms).	12	12	..	5½	..
	Industry	15	11	..	..	..
	Agriculture	-11	22	13	22	19
	Transport and communications	22	14	12	4	..
	of which : Railway transport	12	6	..	..	..
	Housing (excluding private construction)	8	5	..	..	..
	Trade, communal economy, education, health, culture	15	20	..	..	..

Sources : Statistical yearbooks, plans and plan fulfilment reports; *Kapitalnoe stroitelstvo v SSSR*, 1961, pp. 60-61; *Monitor Polski*, No. 97, 1960 and No. 99, 1961.

^a The 1961 plan foresaw an expenditure of 783 million leva in that year compared with the provisional figure of 747 million leva spent in 1960. Actual investment outlays in 1961 of 758 million leva were, however, stated (in the plan fulfilment report for 1961) to be 8 per cent below plan, indicating a planned rate of increase of 12 per cent, rather than the 5 per cent obtained from the previous comparison.

^b Investment outlays in the socialist sector (including outlays of agricultural co-operatives, agricultural circles and housing co-operatives). In 1960 the socialist sector accounted for 89 per cent of total investment, inclusive of agriculture, and for 93 per cent of the total excluding agriculture.

^c Private investment in agriculture also increased by 14 per cent.

^d Outlays on education increased by 42 per cent and those on public health by 30 per cent.

report blames mainly the lack of co-ordination of machinery deliveries and the growing volume of unfinished construction.⁶⁹ Shortages of building workers were also reported, despite the above-plan average level of wages attained in this sector, and labour productivity fell short of the target.

In eastern Germany, deficient preparation of investment projects, insufficient concentration on the main projects, poor performance of the building industry and non-fulfilment of some targets by the engineering industry, are among the reasons mentioned for the

investment arrears in 1961. During the first 11 months of the year outlays "for the maintenance and expansion of the basic means of the socialist economy" (which in recent years represented about 80 per cent of total investments) were 2.5 per cent larger than in the same months of 1960; but the same category of outlays in industry remained unchanged at the 1960 level. As in other eastern European countries, increasing attention is now paid to fuller utilization of existing capacities, completion of projects under construction and tightening of the control over new investment.⁷⁰

⁶⁹ The Central Committee of the Communist Party had devoted a special session in April 1961 to considering means of correcting shortcomings in capital construction (see the *Bulletin*, Vol. 13, No. 2, pp. 10-11).

⁷⁰ See, for instance, a statement by the Chairman of the State Planning Commission, *Neues Deutschland*, 1 December 1961, p. 4.

In Poland, outlays in the socialist sector increased by 8 per cent in 1961; private (productive) investment in agriculture went up by 14 per cent (in step with that in the state and co-operative sector) and completions of privately built houses rose substantially.⁷¹ The total of investment outlays was thus about 10 per cent higher in 1961 than in the preceding year. Within the socialist sector, productive investment outlays increased by 11 per cent and those in the non-productive sectors (about 25 per cent of the total) by only 2 per cent; but within the latter, housing did better than expected and better than in 1960. On the other hand, expenditures on investment in health and education services and in trade either declined or remained constant, and the planned cut in the value of total outlays in these sectors was even somewhat exceeded (see Table 15). As in Hungary, policy was directed towards reducing the dispersal of investment resources occasioned by the rapid expansion of construction in 1959 and 1960; but the further deceleration of building materials output (which rose by 8 per cent, against 10 per cent planned) may also have tended to slow down investment in these sectors. On the other hand, the upward trend of investment in agriculture seems to have continued in 1961, and agriculture remains a priority sector for allocation of funds in 1962.

Total net investment (inclusive of changes in livestock) in Poland rose by 8 per cent in 1961 against 9.5 per cent planned, and since the distributed national income increased also by 8 per cent (against 3.5 per cent planned), the planned increase in the share of net investment did not materialize. Total accumulation, however, rose by 10 per cent, indicating a more than proportionate expansion of working capital and reserves. The latter are reported to have risen particularly fast on farms, as the result of an excellent harvest.

The 20 per cent rise in Rumanian investment outlays, already mentioned, included even larger increases of state investment in both industry and agriculture (see Table 15) and investment in education and health services rose by as much as 42 per cent and 30 per cent, respectively. State housing outlays also rose significantly, but the trend in the private sector — of considerable importance in Rumania — is unknown. The progress was apparently not only quantitative: as the plan fulfilment report puts it, "in 1961 investment outlays were more judiciously used, the organization of operations was more rational, the supply to building sites was well effected, progress was made in shortening the period to the date of capacity commission and a higher economic efficiency of investment was obtained".

⁷¹ The number of dwellings completed in the private sector increased by nearly 20 per cent.

(b) Personal incomes, consumption and retail trade

Wages and farm incomes

Additions to personal incomes and per capita consumption appear to have been rather modest in most countries in 1961, though farmers' incomes rose considerably faster than the national average in some countries, such as Czechoslovakia, Hungary and Poland.

In the Soviet Union per capita money incomes of wage and salary earners were 4 per cent higher in 1961 than in the previous year and the real wage increment was probably little greater (see Table 16).⁷² retail prices in state shops fell by about 1 per cent but prices on farm markets probably rose. No statistics have been published on the incomes of collective farmers, who still make up about one-third of the working population. According to the plan fulfilment report "the incomes of collective farmers derived from the communal economy of their farms somewhat increased", but the effect of price increases for free market sales was probably offset by a continued decline in the volume of such sales, and the total increase in their real per capita incomes can only have been small. However, the disparity between the increase of collective farmers' incomes in the Ukraine, where output and yields were high, and in the drought-stricken areas must have been considerable.⁷³ Allowing for the rise in the population by 1.8 per cent, aggregate personal consumption in the Soviet Union was probably some 4 per cent higher than in 1960 — an increase in line with the change in retail trade turnover shown in Table 17 below; and benefits accruing to the population from the "social fund" (social security benefits and state expenditures on health and education) rose by 8 per cent.

The increases in the volume of personal consumption from 1960 to 1961 in Czechoslovakia and Hungary were of the order of 3 per cent in total and 2½ per cent per capita, and in Poland personal consumption increased by 6 per cent in total and by

⁷² These increases in average per capita wages and salaries are comparable neither with the data on real income of workers and employees published for past years and in the 1961 Plan (see the SURVEY for 1960, Chapter II, Table 9) nor with the targets for the Seven-year Plan and Twenty-year Programme discussed in section 6 below — all of which include social benefits and state-provided services. However, the Seven-year Plan includes a target for an increase of money wages by 26 per cent from 1958 to 1965. It is not certain whether Soviet data on money wages are net of income tax (as in most eastern European countries). If not, the rise in 1961 net of tax would have been slightly greater than the increase in gross income, as a result of the October 1961 tax reforms (see below).

⁷³ The spread among all farm incomes must have been less, since the proportion of state-farm workers (with a fixed wage) is higher in the drought areas than in the Ukraine.

TABLE 16

Per capita nominal and real wages

Percentage increase over previous year

Country	1959	1960	1961		1962 Plan
			Plan	Actual	
Bulgaria					
Nominal wage ^a .	3.8	6.9	..	5.9	2.3 *
Real wage . . .	4	8	..	..	..
Czechoslovakia					
Nominal wage .	2.1	3.1	2.3 ^{a b}	2.5 ^b	..
Real wage . . .	4.6	5.1	..	2.5 *	..
Eastern Germany					
Nominal wage ^a .	7.9	3.8	1.6	3.8 ^c	..
Hungary					
Nominal wage .	2.3	-0.2	1.8	<1.8	..
Real wage . . .	3.6	-0.9	..	ca. 1.5	2.5
Poland					
Nominal wage .	7.8	3.2	2.6	3.9	2.4
Real wage . . .	5	-1.6	..	3.0	..
Rumania					
Real wage . . .	6 ^d	11 ^d	..	4	..
Soviet Union					
Nominal wage .	3	..	..	4	2.7
Real wage . . .	..	..	..	4-4.5 *	..

Sources: National statistics, plans and plan fulfilment reports; Budget speech by the Czechoslovak Minister of Finance, *Rudé Právo*, 23 February, 1962. East German figures are derived from data given in *Neues Deutschland*, 7 January 1962.

NOTE. — Data cover workers and employees in the socialist sector unless otherwise indicated. Hungarian, Polish and eastern German figures are net of taxes and social security payments; it is not clear whether this is so for other countries. Hungarian data include profit participation in 1959 and 1960, but not in 1961.

^a Production workers, industry only.

^b Plan figure covers industry only, and was apparently revised to 2.0 in the course of the year. The comparable actual 1961 figure for industry alone is 3.1.

^c First five months compared with same months of 1960.

^d Including children's allowances, compensation for derationing and payments not included in the personal wage fund.

5 per cent per capita. The rise in nominal wages in Poland was not much greater than that of 1960, but prices increased more slowly so that real wages rose by 3 per cent whereas they had fallen in the previous year (see Table 16); and personal income from pensions, family allowances and sickness benefits (equal to 15 per cent of the wage fund) was 7 per cent higher than in 1960. Farmers' aggregate money income from sales to the state rose by 11 per cent (following an 8 per cent rise in 1960), and per capita real incomes in the farm sector rose much faster than those of the urban population.

The rise of aggregate money income in Poland was greater than had been foreseen in the 1961 plan not only in agriculture, but also in industry where the

above-plan rise in employment was entirely responsible for the fact that the wage bill rose by 6.5 per cent instead of the 4.5 per cent planned. Supplies seem to have been available to meet the increased personal incomes without undue strain; but the general pressure on the wage bill was such that the authorities did not feel able to risk adding to it by venturing on the intended reforms of the wage structure, and they have expressed some anxiety lest the inflation of industrial employment and wage bills should again get out of hand.⁷⁴ It is therefore planned to hold the average rise of industrial wages to only 1.6 per cent in 1962, which will mean that the ratio of the average percentage wage increase to the percentage growth of productivity will change from 1:2 in 1961 to 1:3.5 in 1962. An industry-wide revision of piece-rate norms is foreseen, accompanied by a review of wage scales, and a tight control is to be exercised over the classification of workers and employers by professional and skill categories so as to check the "wage drift" via over-grading.

Both nominal and real wages rose somewhat more slowly in Czechoslovakia than in 1960 (see Table 16), but the above-plan increase in the wage bill in industry alone (by 6.8 per cent instead of 4.7 per cent) was due both to higher employment and to higher average wages than had been planned. No data on personal disposable incomes in the farm sector are available, but aggregate farm money income rose at practically the same rate as the wage bill — by 6½ per cent, from a 4 per cent rise in sales to procurement agencies and a 20 per cent increase in free market sales — and presumably somewhat faster per capita. As in Poland, consumers' supplies seem to have been adequate to meet demand without any general strain, though the very large increase in the value of farm sales on the free market — in a year when procurements also increased and global output hardly changed — suggests that prices in that market must have risen. However, in Czechoslovakia also, a further revision of piece-rate norms has been decided upon, as a means of keeping future increases in the wage-bill more easily under control as well as of increasing the incentive for the growth of labour productivity.⁷⁵

In Hungary nominal wages rose almost precisely as planned in 1961, and by the smallest margin recorded in any country of the area; and real wages increased by only about 1½ per cent (see Table 16).⁷⁶

⁷⁴ See footnote 20 and also a resolution on this subject by the Central Committee of the Polish United Workers' Party, *Trybuna Ludu*, 22 November 1961.

⁷⁵ See *Rudé Právo*, 4 February 1962. Piece-rate norms were 10 per cent over-fulfilled on average in 1961, and more than 20 per cent over-fulfilled by 23 per cent of all workers (18 per cent did not succeed in fulfilling their norms). Moreover, some 90 per cent of all workers received premia of some kind.

⁷⁶ Excluding profit participation; but the increase would not be very different if participation in profits were included.

Average wages in industry alone were almost completely stabilized (the rise was only 0.5 per cent) despite the very large rise in labour productivity (see Table 5), so that practically the whole of the 4½ per cent rise in the industrial wage bill was due to the increase of employment. A larger, though still modest, increase in wages is foreseen in 1962, combined with modifications of the premium system particularly designed to promote economic efficiency (see section 4). Total farm income from sales to state and co-operative trade rose by 6 per cent from 1960 to 1961: no data on personal incomes of farmers are yet available, but it seems probable that the increase was greater than for the urban population, particularly as free-market prices of farm produce rose by 4-5 per cent.⁷⁷ Other price changes in Hungary were in the nature of minor adjustments which left the general consumers' price level unaffected.

The data on personal income available for other countries relate to wage and salary income alone. In eastern Germany average wages in industry in the first five months of 1961 appear to have been 3.8 per cent higher than in the same months of 1960 (against a 1.6 per cent increase planned for the year) but the wage bill for the first five months rose by only 2.7 per cent.⁷⁸ No data on farm income are available. The only published increase of personal income was thus very modest, but disquiet has nevertheless been expressed that disequilibrium between the wage fund and the supply of consumers' goods is causing supply difficulties (see also below). As in Poland and Czechoslovakia, a tightening up of wage control and norm-fixing is intended in 1962 intensifying action started on a small scale last year.⁷⁹

Increases in per capita industrial wages in Bulgaria and in average wages in the whole economy in Rumania were somewhat higher than in other countries —

⁷⁷ Data becoming available since the last SURVEY was published permit a more precise statement of the changes in farmers' incomes from 1959 to 1960 estimated in Chapter II of that SURVEY, p. 19. On the basis of the partial data then available, it was deduced that "per capita real incomes from agriculture probably fell in 1960" though other income of farm families rose. Data now available (*A nemzeti jövedelem és a lakosság életkörülményei a hároméves terv időszakában*, 1961, pp. 30, 31 and 62) show that gross cash income from sales to state procurement agencies and labour-day income in co-operative farms together fell by 16 per cent from 1959 to 1960 (the SURVEY had suggested a fall of 24 per cent). Receipts from free-market sales fell by 2 per cent. Net cash income from all sources rose by 2 per cent in total and by 9 per cent per capita, and net per capita real income (including income in kind, which rose by 2 per cent) from all sources, including social services, rose by 7 per cent; but the latter increase is only one-half of one per cent if receipts from liquidation of assets on entry into co-operative farms are excluded.

⁷⁸ Derived from data in *Neues Deutschland*, 7 January 1962.

⁷⁹ The "Zeitsummenmethode" of control over an enterprise's wage bill — which is to be extended — involves the assessment of the labour input (in terms of working-time) required per unit of output and then linking the permissible wage bill by this means to the actual output realized.

5.9 per cent (in money terms) and 4 per cent (in real terms) respectively; but no data on farm income in these countries are available.

Income differentials

In the Soviet Union progress continues with the wage reform intended to bring about a considerable narrowing of income differentials during the period of the Seven-year Plan. The intended pattern of wage increases under the plan is as follows:

	Percentage increase 1958 to 1965
All workers and salaried personnel	26
Lower-paid workers (up to 60 roubles per month)	45-60
Medium category (60-140 roubles per month) .	20-25
Highly paid (more than 140 roubles per month)	—

Source: S. P. Figurnov, *Realnaya zarabotnaya plata i podem blagosostoyaniya trudyashchykh v SSSR*, Moscow 1960, p. 94.

As a result, the spread of wages, measured by the ratio of the average wage of the top 10 per cent of workers to the average earned by the bottom 10 per cent will be reduced in 1965 to 4:1 against 6:1 now. The spread will be still narrower (3:1 against 5:1 now) for family incomes, since the share of social benefits in income will increase.

The wage reform, accompanied by the shortening of the working week, was extended — notably to state farms — in 1961, and by the end of that year had affected about 40 million workers, raising wages by about one-tenth and increasing particularly the lower wages, such as those in state farms. A similar effect on the spread of income was produced by the further liberalization of income tax; from 1 October 1961 workers earning less than 60 roubles per month were exempted from income tax completely, while those earning between 61 and 70 roubles had their income tax reduced by 40 per cent. The increase in benefits from the "social fund", mentioned above, likewise tended to lessen disparities of real income. During the remaining years of the Seven-year Plan, minimum nominal wages will be increased to 50-60 roubles per month, and in 1963 the minimum of state pensions will be increased again. The salary scales of teachers and doctors will also be revised upwards.⁸⁰

In some of the eastern European countries two different influences are affecting personal income distribution. The search for better financial incentives for managerial efficiency mentioned in section 4 tends — if successful — to raise the higher incomes, through addition of premia to salaries: on the other hand, social security benefits are being extended in a number of countries and benefiting mainly the lower income groups. The rise in such benefits in Poland in 1961

⁸⁰ Mr. Khrushchev's report to the XXII Party Congress, *Pravda*, 18 October 1961.

TABLE 17

Volume of retail trade turnover (including public catering), 1959 to 1962 Plan

Percentage increase from previous year

	All commodities					Food				Non-food			
	1959	1960	1961		1962 Plan	1959	1960	1961		1959	1960	1961	
			Plan	Actual				Plan	Actual			Plan	Actual
Albania	13.2	3	7	5 ^a	..	12.3	..	..	..	14.8	..	..	..
Bulgaria	19.1	11.1	7.1 ^b	9.0	7.8	15.6	..	..	..	21.9	..	..	..
Czechoslovakia	7.6	9.3	4.2 ^a	5 ^{a c}	5 ^{a c}	6.4	4.9	..	..	9.0	14.9	..	..
Eastern Germany . . .	10.7	8.2	6.0 ^a	6.7 ^{a d}	..	7.8 ^e	5.8 ^f	4.8 ^a	5.3 ^{a d}	14.6 ^e	11.1 ^f	7.5 ^a	8.5 ^a
Hungary	12.6	10.1	4	2 ^a	4	10.7	7.7	4	6	14.4	10.2	5	-2
Poland	11.3	3	4	9	4.6 ^a	5.7	2	6	6.5 ^a	16.2	3	3	11.8 ^a
Rumania	6	17	14.5	14.7	12.7	2	7	..	14.3	8	21	..	15.1
Soviet Union	8.0	10.1	5.8	4	7.4	7.1	9.5	..	..	8.6	11.3	..	..

Sources: National statistics, plans and plan fulfilment reports. *Economic Survey of Europe in 1960*, Chapter II, p. 21; *Economic Bulletin for Europe*, Vol. 13, No. 2, p. 19; *Rudé Právo*, 13 December 1961, 8 and 11 January and 2 and 23 February 1962; *Népszabadság*, 19 January 1962; *Sovetskaya torgovlya*, No. 1, 1962.

NOTE. — Data refer to state and co-operative trade in all countries, except Bulgaria and eastern Germany, where private trade is included. In Hungary the turnover includes centrally distributed commodities sold by private shops. Soviet data exclude sales of food products on a commission basis by consumer co-operatives.

^a Value of retail trade turnover.

^b A revision to 6.0 had taken place in the course of the year.

^c Retail trade excluding free market food sales increased by 3.8 per cent in 1961 and it is planned to rise by 5.5 per cent in 1962.

^d First eleven months.

^e Estimate based on the shares of food and beverages (*Genussmittel*) and non-food articles in the total trade expressed in current prices.

^f Calculated from current values and retail price index.

has been mentioned, and the minimum monthly wage was raised from 600 to 700 zlotys in that country on 1 August 1961. Payment of old-age pensions was extended to 240,000 co-operative farmers in Hungary last year. Since 1 August 1961, collective farm members in Bulgaria have been entitled to invalidity and sickness insurance benefits, in addition to their existing entitlement to old-age pensions; and the same benefits will be extended to co-operative farmers in Czechoslovakia from 1 April 1962. Total social expenditures benefiting the individual (including the benefits just mentioned) rose by 10 per cent in Bulgaria and by 7 per cent in Hungary; and total collective consumption rose by 8 per cent in Czechoslovakia.

The growth of retail trade

The expansion of retail trade turnover slowed down in 1961 in all countries of the area except Albania and Poland. The deceleration was particularly sharp in Hungary and the Soviet Union and considerable in Czechoslovakia (see Table 17). The percentage increases in these last three countries were small — 2.5 per cent — as was the increase in Albania (for the second consecutive year). In Bulgaria and Rumania growth of turnover was rapid, but partly because the share of consumption passing through the state and co-operative retail network in these economies still tends to increase. Turnover was substantially above the planned levels in Poland and, to a less extent, in Bulgaria, just about up to plan (but relatively high) in

eastern Germany, as in Rumania, and below plan in all other countries.

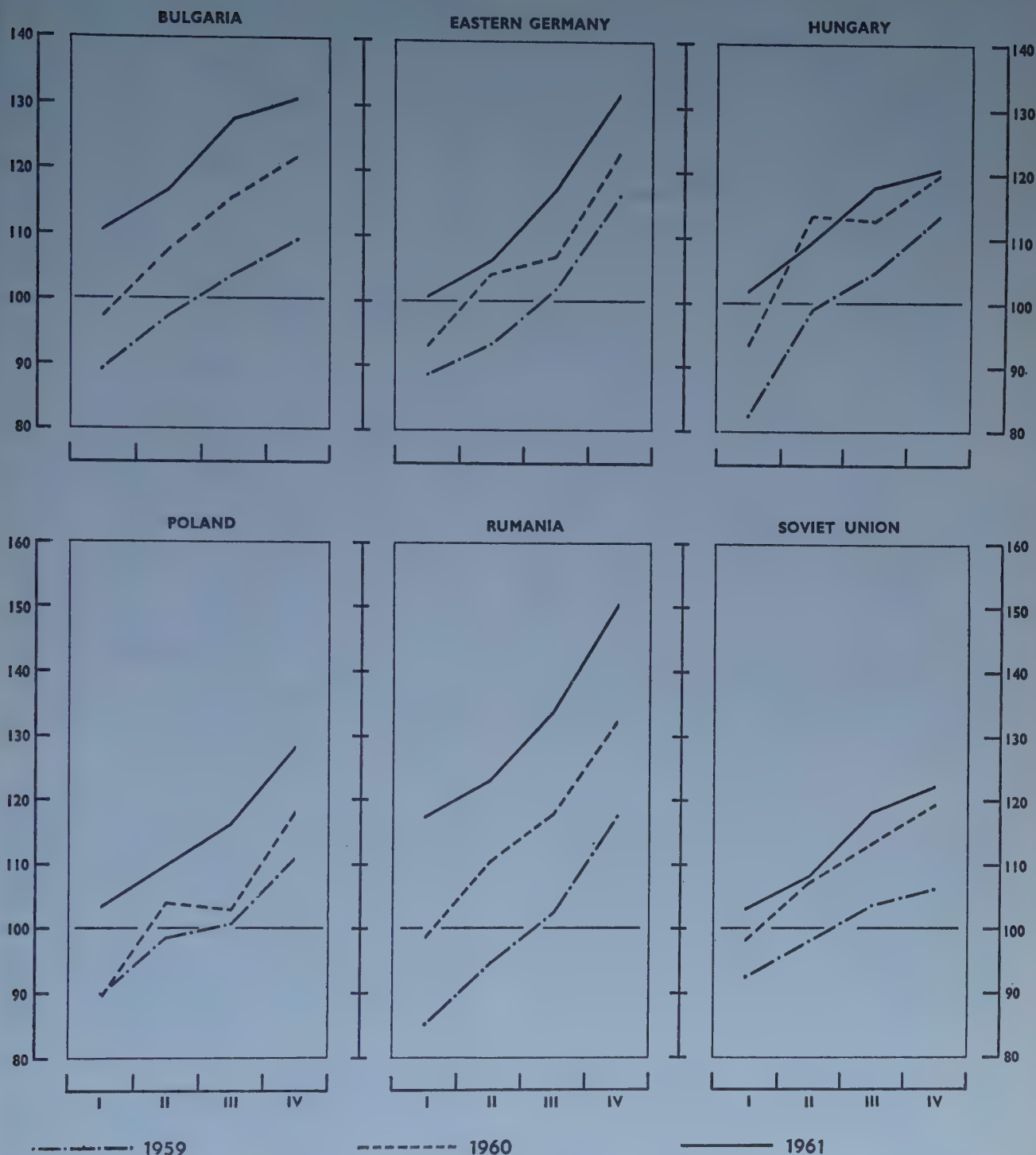
The quarterly movement of retail trade turnover during the last three years is illustrated, for six countries, in Chart 1. Sales were particularly high in the third quarter of 1961 in five of these countries (Rumania seems to be the only exception), probably reflecting, *inter alia*, uneasiness about the political tensions connected with the Berlin issue.

In the three countries for which a broad classification of turnover is available, food and non-food sales increased in parallel in Rumania; in Hungary food sales rose by 6 per cent (possibly partly because of an increase in the share of consumption passing through trade channels) while sales of other goods fell, and in eastern Germany the growth of food sales was below the average (see Table 17). Free market food sales rose in Czechoslovakia, were unchanged in Hungary, and probably fell in the Soviet Union (they are excluded from the data in the table for the last two countries). The more detailed figures in Table 18 show that meat supplies improved in Poland and, to a smaller extent, in Czechoslovakia, Rumania, Bulgaria and Albania. In Hungary there is said to have been some recovery in the last quarter, raising the year's sales above the 1960 level; but in the Soviet Union sales fell by 4 per cent. Supplies of sugar and of liquid milk seem generally to have increased, though sales of butter hardly changed in the Soviet Union and in Poland they fell — in the latter country largely because sales of margarine rose by 23 per

CHART 1

Quarterly values of retail trade turnover in six countries, 1959 to 1961

Index numbers (quarterly average of 1959 = 100)



Sources : Statistical bulletins, plan fulfilment reports; *Statistical Indicators of Short-term Economic Changes in ECE Countries*; *Vestnik statistiki*, No. 3, 1960, p. 80 and No. 6, 1961, p. 94; and *Sovetskaya trgovlya*, 11 April and 14 October 1961.

NOTE. — For eastern Germany in 1961 the fourth quarter data are for October and November at a quarterly rate.

TABLE 18
Retail sales of some products in 1961

Percentage increase over preceding year

	Albania	Bulgaria	Czecho- slovakia	Hungary ^a	Poland	Rumania	Soviet Union
Meat	2.1	2.1	4	-1.3	6.4	4.4	-4
Meat products	..	22.6	13	..	..	..	10
Sugar	5.4	16.7	3	11.1	8.0	..	4
Sugar products	..	11.7	..	-8.1	..	..	1
Butter	..	6.6	9	5.9	-2.9	..	10 ^b
Milk	9.1	15.0	9	11.1	7.5	28.1	11
Cheese	1.5 ^c	2.1	14	5.2	..	..	15
Eggs	..	8.0	10	17.7	-5.3	14.1	7
Fresh vegetables	19.6	3.8	..	..	..	..	17
Fresh fruit	..	-5.1	..	..	..	..	..
Woollen fabrics	..	11.8	..	-15.6	-6.8	..	-6 ^d
Cotton fabrics	1.0	9.0	..	-22.9	5.9	..	..
Silk fabrics	..	3.6	..	-12.4	9.7	..	6
Ready-made clothing	..	6.1	3	..	14.2	18.8	10
Footwear	..	8.5	9 ^e	2.5 ^e	14.8 ^e	13.4	..
Bicycles	..	..	..	2.0	-8.5	11.8	1
Motor-cycles and scooters	..	..	..	-29.0	0.6	15.4	8
Washing machines	..	75.2	..	7	5.9	65.4	30
Refrigerators	..	..	30	-8	18.8	280	30
Sewing machines	..	..	..	..	5.3	..	-1
Vacuum cleaners	..	..	..	69.2	17.1	..	11
Watches	..	..	..	..	3.5	..	-11
Motor-cars	..	..	..	75	..	..	-11
Radios	..	-5.5	9	-11	-5.3	10.5	1
Television sets	..	183.4	4	80	26.6	38.1	16
Furniture	..	12.8	..	8-10	4.3	30.6	13

Sources: National statistics and plan fulfilment reports; *Rudé Právo*, 8 and 11 January 1962; *Népszabadság*, 19 January 1962.

^a Data cover the first nine months (except on washing machines, refrigerators, motor-cars, radios, television sets and furniture, for which they cover the whole year). Meat sales for the whole year are reported to have somewhat exceeded the 1960 level.

^b Including processed milk.

^c Including curds.

^d Including linen fabrics.

^e Leather footwear only.

cent — and there was a particularly welcome rise in supplies of fresh fruit in the Soviet Union. Sales of textiles and clothing rose in most countries, though for the former group alone falls were registered in the Soviet Union. Sales of the newer durable goods generally showed the usual large percentage increases while falls were registered for some of the more traditional ones.

Although, as mentioned above, it cannot be said that there was any overall shortage of consumers' goods to meet the increase in incomes in 1961, surpluses and shortages of particular products were widespread. Most of the more exasperating scarcities were in the food sector — not surprisingly in a year of poor farm output. The income elasticity of demand for meat is high everywhere in the area, so that the 4 per cent fall in supplies to the Soviet consumer implied significant local shortages. Scarcities of meat and, at times, of fats, eggs, potatoes and fruit were reported

in Czechoslovakia; of meat in Bulgaria, and of butter and potatoes in eastern Germany where a form of rationing of some products — by means of consumers' registration with particular shops — was introduced. Hungary's meat shortage was not overcome until the autumn — and then vegetables became scarce because of the drought; and in that country the authorities have warned that some specific shortages may recur in 1962 (see section 5). In Poland, significant shortages seem to have occurred only during the stocking up of food in the third quarter.

In the textiles and clothing sector there was, in most countries, the familiar picture of scarcity of some goods and mounting stocks of others; but in eastern Germany, as noted in section 2, a scarcity of some textile raw materials limited output. In Czechoslovakia, shortages of some types of clothing and footwear were reported, as well as of some kinds of pottery, refrigerators and television sets; and similar shortages of

good quality clothing and the newer durable goods were reported in Bulgaria. In Hungary, imports of consumers' manufactures in 1961 rose by only 1 per cent while exports increased by 36 per cent, and this contributed to the appearance of a number of occasional shortages in that country — not only of goods such as refrigerators, but even of detergents, dry batteries and other minor items of electrical equipment. Demand for motor-cars greatly exceeds supplies to the individual consumer in most countries, and in both Czechoslovakia and Hungary heavy deposit requirements have not prevented a continued growth of order books.⁸¹

Hire purchase facilities for consumers' durable goods were curtailed in both Czechoslovakia and eastern Germany⁸² but were further extended in the Soviet Union; and a consumers' credit scheme for the purchase of a wide variety of goods was introduced in Hungary.⁸³

The problem of adapting the pattern of consumer-goods production to that of consumers' preferences thus persists in all countries. Some progress is, however, clearly being made and, but for the low farm output which combined with export priorities to restrict domestic supplies of the preferred foods in some countries, the balance in most of the national consumers' markets would probably have shown a more definite improvement in 1961.

Personal savings again rose in all countries by percentage increments rather smaller than in earlier years, except in Czechoslovakia:

Savings deposits

Billions of national currency units at end of month

	1959 December	1960 December	1961 December	Percentage increase 1960 to 1961
Czechoslovakia . .	11.9	14.2	17.1	20
Eastern Germany .	14.0	17.1	19.1 ^a	12 ^a
Hungary	3.0	5.3	6.4	21
Poland ^b	11.0	14.3	16.4	15
Rumania	..	..	..	39
Soviet Union . .	10.1	10.9	11.7	7

Sources: Budget statements, national statistics, and plan fulfilment reports; *Rudé Právo*, 20 October 1961; *Economic Bulletin for Europe*, Vol. 13, No. 2, p. 21.

^a November and December to November, respectively.

^b Savings in the post-office network only. Including savings in co-operatives: 16.2 at end-1960, and 19.1 at end-1961 (increase — 18 per cent).

Construction of dwellings rose fast in Czechoslovakia, eastern Germany, Hungary and Rumania in 1961 and moderately in Poland; but in the Soviet Union urban construction (in terms of living area)

was less than in 1960 and no greater than in 1959 and in Bulgaria total construction was only 55 per cent of the 1960 volume (see Table 19). Plans for the year were exceeded in Czechoslovakia, Hungary and Rumania; but the 1961 plan was seriously under-fulfilled in the Soviet Union, where construction — large as it is — still lags far behind the average annual rate of 93.5 million square metres required to achieve the original 1965 target — itself clearly adjudged inadequate in relation to the needs now foreseen (see section 6). The final figure for completions in Czechoslovakia seems likely to be around 90,000 dwellings — assuming that state construction of one-room apartments, etc. has not fallen (see Table 19) — which compares well with the 87,500 target for 1962 under the Five-year Plan. In Hungary state and state-subsidized construction amounted to 37,100 dwellings; private housebuilding probably did not fall and, if so, the 50,000 annual average of the Five-year Plan must have been nearly reached.⁸⁴ In eastern Germany, however, the Seven-year Plan target of an average annual construction of 110,000 dwellings up to 1965 is still far from achievement.

Slow completion of dwellings remains a problem in a number of countries. This is due partly to undue dispersion of basic construction resources (see subsection (a) above) and to occasional diversion of resources to projects of higher priority; but, in addition, there are almost universal complaints that supplies of fittings and equipment (and even of furniture) do not keep pace with the growth of construction. In Czechoslovakia, for example, the volume of uncompleted construction at the end of 1961 was 25 per cent greater than that of completions during the year, and the President has expressed strong criticism of the quality of construction also.⁸⁵

Leisure and education

Finally, the reductions in working hours mentioned in section 2 have brought a further advance in non-material welfare in the Soviet Union and Czechoslovakia, and social benefits of a number of kinds have been increased in other countries. The increases in social expenditures were mentioned above. In the Soviet Union the academic year 1961/62 was the first

⁸⁴ However, Hungary is a country where the housing targets for 1965 are most modest in relation to the existing stock, as the number of rooms per inhabitant is to increase only by 5 per cent over 1958, as against about 10 per cent in Czechoslovakia and Poland, 21 per cent in eastern Germany with its declining population and 45 per cent in the urban stock of the Soviet Union (see *Economic Survey of Europe in 1959*, Chapter III, p. 52).

⁸⁵ *Rudé Právo*, 2 January 1962: "Some houses are not properly built. Prefabricated panels, especially, are being carelessly manufactured so that water leaks into the houses built with such panels and the people living in them have to face serious and needless difficulties from the very first day."

⁸¹ In Czechoslovakia 65,312 orders were outstanding at the beginning of 1961, on each of which a deposit of 20,000 Kčs had been paid. Deliveries of cars during the year amounted to 30,000 (including deliveries not subject to the deposit requirement).

⁸² See the *Bulletin*, Vol. 13, No. 2, 1961, p. 20.

⁸³ *Figyelő*, 14 June 1961.

TABLE 19
Dwelling construction, 1959 to 1962 Plan

Country	1959	1960	1961		1962 Plan
			Plan	Actual	
Thousands of dwellings					
Czechoslovakia					
Total	68.3	76.3	85.0	86.2 ^a	87.5
of which :					
State	43.1	41.6	37.9	35.5	36.4
of which : One-room apartments, etc. ^b	1.6	3.1	4.0	..	..
Co-operative	1.3	8.8	13.0 ^c	12.2	18.3
Enterprises	1.4	4.8	5.4	7.5	7.5
Private	20.9	18.0	24.7	30.9	25.3
Eastern Germany					
Total	80.0	80.5	..	90.6	100
of which :					
Co-operative	31.4	40.6	..	59.8	..
Hungary					
Total	46.6	42.1	46.2	48-50	47
of which :					
State	13.3 ^e	12.9	15.0	16.5	15
Co-operative and private	33.3 ^f	29.2	31.2	.. ^g	..
Rumania					
From state and co-operative funds	23.4	30.0	37.0	41.0	46
Poland					
Thousands of rooms					
Total	402.9	420.6	..	458.0	484
of which :					
State	98.3	101.2	..	78.6	..
National Councils	88.6	90.9	107.6	104.4	122
Co-operatives	27.7	41.4	53.8	54.0	..
Private	188.3	187.1	..	221.0	..
Millions of square metres of living area					
Bulgaria	1.85	1.76	..	0.96	1.11
Soviet Union					
Total state, co-operative, state-aided and private in towns and urban-type settlements	80.7	82.8	96.0	80	95.6
of which :					
State and co-operative	53.5	55.8	..	57	..
State-aided and private	27.2	27.0	..	23	..

Sources : Statistical yearbooks and bulletins, plans and plan fulfilment reports; *Rabotnichesko delo*, 3 November 1961; *Rudé Právo*, 24 January and 23 February 1962; *Stavebnik*, 6 February 1962; *Neues Deutschland*, 14 January 1962; *Népszabadság*, 18 January 1962; *Polish Economic Survey*, Warsaw, No. 2, 1962 and *Monitor Polski*, No. 97, 1960, p. 855 and No. 99, 1961, p. 944; and *Pravda*, 7 December 1961.

^a Excluding construction mentioned in footnote b.

^b One-room apartments for unmarried people, and dwellings in non-residential buildings.

^c Revised from 15.6 in the course of the year.

^e Including co-operative.

^f Excluding co-operative.

^g State-aided construction was 20.6 (in 1960 — 17.8).

of compulsory eight-year education under the reform enacted in 1959, adding a year to the period of schooling to be followed by optional technical or university training after two years' work in production. 1961/62 was thus also a year of enlarged entitlement to (free) further education and the number of university and technical students increased. A similar transition to

eight-year compulsory schooling was made in Rumania, where there was also a large increase in entry to technical schools and universities. In Czechoslovakia, nine-year schooling was introduced in 1960 and new regulations recently provided for a considerable increase in university places and other facilities for higher education.

(c) External trade

Increases in the value of external trade turnover ranging from about 9 per cent in Czechoslovakia to nearly 17 per cent in Rumania were registered in 1961 in the five eastern European countries for which data are available; but in the Soviet Union turnover rose by only 4 per cent—one of the smallest annual increases recorded during the postwar period. For the six countries as a group the rise in turnover was about $7\frac{1}{2}$ per cent. The percentage increments of turnover were below those registered in 1960 and *a fortiori* below the very large increases of 1959 in all countries except Rumania, where the major expansion—by about one-third in a single year—occurred in 1960.⁸⁶ Nevertheless, in all countries except the Soviet Union the rates of growth foreseen in the long-term plans ending in 1965 were exceeded (assuming that increases in volumes were not far below those of current values).

The rather small growth of Soviet trade for the second successive year, and the relatively modest target set for 1962, are partly due to the fall in exchanges with mainland China, reflecting that country's economic difficulties. However, this cannot be the whole explanation, and recent statements on longer-term targets suggest that the Soviet authorities now foresee something like the planned 1962 rates of growth continuing into the more distant future.⁸⁷

In the absence of data on relative changes in volumes of imports and exports from 1960 to 1961, it is difficult to be sure of the effect of changes in the trade balance on the increase in resources available for domestic use in each country. However, in Hungary at least the change from an import to an export surplus somewhat reduced the rate of growth of national income for distribution as compared with that of income produced, whereas in Poland the small rise in the import surplus had an insignificant effect. If the changes in the balance of trade in current values shown for other countries in Table 20 are representative of changes in relative volumes, they may have just noticeably subtracted from the growth of resources for domestic use in Bulgaria and supplemented it in Czechoslovakia and Rumania. In the Soviet Union foreign trade is too small in relation to total material product for changes in the balance to have any internal significance.

⁸⁶ For a review of eastern European and Soviet trade in 1960 and the early months of 1961, see the *Bulletin*, Vol. 13, No. 1, pp. 20-46.

⁸⁷ The targets of the Seven-year Plan were, as a minimum, an increase in trade turnover with socialist countries of 50 per cent from 1958 to 1965 and, as a maximum, a 100 per cent rise in total turnover. Total turnover in 1961 was 35 per cent above that of 1958 and, according to a recent statement (*Soviet News*, 25 January 1962), this is now regarded as representing advance achievement of the original 1965 goal. It has been suggested that an average annual increase of about 7 per cent should be possible over the next twenty years (see section 6).

The commodity composition of trade seems to have been affected—not surprisingly—by the poor farm output in a number of countries normally exporting foodstuffs, although Albania reported very large increases in exports of fruit; and machinery and equipment and consumers' manufactures seem, as for several years past, to have been the most dynamic sectors. However, data on the commodity composition of trade in the area as a whole are still exiguous.

Export plans were at least fulfilled in Bulgaria, Hungary and Rumania and considerably exceeded in Poland; and Albania reported 5 per cent overfulfilment of a 1961 plan to raise exports by 40 per cent.⁸⁸ Stocks appear to have been drawn upon in Bulgaria to support exports of foodstuffs in the face of the fall in farm output; but engineering products were probably the main contributor to the overall expansion—rising by 33 per cent in 1961 (after a 27 per cent increase in 1960)⁸⁹—and accounting for 16 per cent of the 1961 total—while exports of non-ferrous metals also rose. Rumania also appears to have relied mainly on engineering products to achieve its 10 per cent rise in total exports, though chemicals made a contribution.

As can be seen from the figures below, consumers' manufactures were the most dynamic component of Hungarian exports, rising from 17.8 per cent to 20.6 per cent of the total from 1960 to 1961; and the other main categories of exports also showed large increases. The rise in imports was mainly attributable to larger needs for imported foodstuffs, but the rise of the total import bill was limited by restricting purchases of consumers' manufactures to about the 1960 value and slightly reducing imports of machinery.

Foreign trade of Hungary and Poland, 1960 and 1961

Commodity group	Percentage increase from preceding year			
	1960	1961	1960	1961
	Hungary		Poland	
	Exports			
Machinery and equipment . .	24.7	15.2	23.2	13.6
Fuels and raw materials . . .	12.1	11.7	3.6	1.1
Consumers' manufactures . . .	7.5	36.2	80.2	28.4
Foodstuffs	3.1	13.1	14.8	35.0
Total	13.6	17.7	15.8	13.5
	Imports			
Machinery and equipment . .	34.2	-3.7	3.8	21.2
Fuels and raw materials . . .	19.0	5.3	11.7	8.9
Consumers' manufactures . . .	33.8	0.8	-18.9	23.4
Foodstuffs	13.5	34.0	-0.6	8.0
Total	23.1	4.9	5.3	12.9

Sources: National statistics and Polish plan fulfilment report.

⁸⁸ *Zeri i popullit*, 27 December 1961.

⁸⁹ *Rabotnichesko delo*, 25 January 1962.

TABLE 20
External trade, 1958 to 1962 Plan

Values in millions of current dollars and percentage increase in value and (in italics) in volume from the previous year

	Current value			1962 Plan	Percentage increase in value or in volume				1961 Plan	1962 Plan
	1959	1960	1961		1958	1959	1960	1961		
Bulgaria Exports	467	572	661	793	0.8 <i>1.2</i>	25.2 <i>26.9</i>	22.3 <i>..</i>	15.6 <i>..</i>	<i>11.1</i>	<i>19.9</i>
Imports	580	633	666	743	10.4 <i>12.6</i>	58.0 <i>68.0</i>	9.2 <i>..</i>	5.3 <i>..</i>	<i>6.7</i>	<i>11.6</i>
Balance	-113	-61	-5	+50						
Czechoslovakia . Exports	1 785	1 994	2 120	..	11.4 <i>12.4</i>	14.1 <i>17.4</i>	11.7 <i>16.3</i>	6.3 <i>..</i>	<i>ca.10</i>	<i>..</i>
Imports	1 602	1 816	2 024	..	-2.1 <i>7.1</i>	18.1 <i>18.3</i>	13.3 <i>8.9</i>	11.5 <i>..</i>	<i>ca.10</i>	<i>..</i>
Balance	+183	+178	+96							
Eastern Germany Exports	2 121	2 191	..	..	4.4	12.3	3.3	..	<i>5.4</i>	<i>..</i>
Imports	1 992	2 170	..	..	4.0	18.6	8.9	..	<i>4.1</i>	<i>..</i>
Balance	+120	+21	..	..						
Hungary Exports	770	874	1 029	2 262	40.1	12.6	13.6	17.7	<i>17.0</i>	<i>10</i>
Imports	793	976	1 024		-7.5	25.7	23.1	4.9	<i>8.6</i>	
Balance	-23	-102	+5							
Poland Exports	1 146	1 326	1 505	1 636	8.7 <i>27.5</i>	8.1 <i>11.0</i>	15.7 <i>19.4</i>	13.5 <i>..</i>	<i>..</i> <i>7.8</i>	<i>..</i> <i>8.7</i>
Imports	1 419	1 495	1 688	1 735	-2.0 <i>6.7</i>	15.6 <i>14.1</i>	5.4 <i>5.8</i>	12.9 <i>..</i>	<i>..</i> <i>9.4</i>	<i>..</i> <i>2.8</i>
Balance	-273	-169	-183	-99						
Rumania Exports	522	717	798	..	5.0	11.5	37.4	10.5	<i>11.0</i>	<i>17.0</i>
Imports	502	648	798	..		4.1	29.2	23.5		
Balance	+20	+69	—	..						
Soviet Union . . Exports	5 441	5 562	ca. 11 650	12 400	-2.0 <i>2.7</i>	26.6 <i>31.8</i>	2.2 <i>0.6</i>	4.0	<i>6.5</i>	<i>6.6</i>
Imports	5 073	5 630			10.5 <i>19.6</i>	16.6 <i>20.7</i>	11.0 <i>9.7</i>			
Balance	+368	-68	..							

Sources: National statistics and plan fulfilment reports; *Economic Bulletin for Europe*, Vol. 13, No. 1, p. 21; *Statistical Indicators of Short-term Economic Changes in ECE Countries*; *Népszabadság*, 24 December 1961; *Agerpres*, 1 March 1961; *Pravda*, 7 December 1961 and 23 January 1962; *Rabotnichesko delo*, 17 December 1960 and 2 November 1961.

In Poland exports of equipment and consumers' manufactures rose quite fast; but the large increase in farm output supported an even more rapid growth of food exports. Imports of consumers' manufactures more than recovered from the fall in the previous year and those of machinery rose particularly rapidly.

Czechoslovakia — whose export plan was not fulfilled — was less successful in increasing its already large exports of equipment, which rose by 6 per cent and contributed a reduced share of the total. The rise in imports reflected, *inter alia*, the poor harvest and shortfalls on planned output of metals, total imports of raw materials increasing by 14 per cent.

Regional patterns of trade are difficult to distinguish as yet. It seems unlikely that trade with mainland China can have recovered significantly from the sharp reduction which occurred in 1960⁹⁰ — and it may even have fallen further. Judging from western European data for the first nine months of 1961,⁹¹ trade with that area probably rose by more than 10 per cent and, if so, its share in total eastern

⁹⁰ See the *Bulletin*, Vol. 13, No. 1, pp. 22-23. But the First Secretary of the Albanian Workers' Party has described 1961 as a year of flourishing economic co-operation between his country and mainland China (*Zeri i popullit*, 1 October 1961).

⁹¹ See Chapter I, section 3.

European and Soviet trade turnover must have slightly increased. In Hungary, the share of other socialist countries in total turnover was virtually unchanged at 70 per cent. Eastern Germany succeeded in lessening its dependence on west German sources of supply, imports from western Germany and west Berlin falling by 9 per cent and 10 per cent, respectively, while exports to those territories fell by 15 per cent and 10 per cent.⁹² East German trade with the Soviet Union simultaneously rose by 14 per cent.⁹³ Bulgarian trade with the Soviet Union is reported to have accounted for half of all exports from the former country in 1961 and, if so, its share in the total must have fallen slightly.

The payments position

As always, indicators of the overall balances of payments of the eastern European countries and the Soviet Union are scanty. The latter country apparently sold gold again in 1961, western European sources estimating total sales during the first half-year alone at some 7 million ounces. Poland was able to draw upon considerable credit granted during 1960 and early 1961 to finance the latter year's trade deficit and Bulgaria and eastern Germany also received new credits from the Soviet Union at the end of 1960.⁹⁴ Moreover, the Soviet Union agreed to the postponement by Bulgaria of \$40 million of debt service due in 1961. The Albanian payments situation was worsened by the suspension of credits from some CMEA countries (see section 5). Czechoslovakia, like the Soviet Union, was, as usual, a net donor of credit to other countries in 1961 and Hungary apparently faced the need to make credit repayments in that year totalling some 1,500 million forints. New credits granted by the Soviet Union seem again to have somewhat exceeded \$1,000 million and again went mainly to non-European countries. Receipts from tourism increased in a number of countries.⁹⁵

Trade policies and co-operation through the CMEA

Few new developments in the field of individual trade policies have been announced during 1961, though the eastern European countries in particular continue their intense efforts to stimulate exports.⁹⁶ The Hungarian introduction of a two-column tariff in September 1961⁹⁷ was followed in October by the announcement of a similar innovation in the Soviet Union. Both tariffs include minimum duties on goods from countries conceding "most-favoured-nation" treatment and higher rates applicable to others. In Bulgaria a currency reform (involving an exchange of 1 new lev for 10 old) has been accompanied by a devaluation from \$1=6.8 old, or 0.68 new, leva to \$1=1.17 new leva (1 rouble=1.3 leva).⁹⁸

The last plenary session of the Council for Mutual Economic Assistance (CMEA), held in Warsaw in December 1961, appears to have resulted in further steps towards the co-ordination of the production pattern of the member countries through increased specialization and expanding mutual trade.⁹⁹ It was announced at the close of the session that the member countries had agreed on the basic principles which should govern an "international socialist division of labour" and future co-operation,¹⁰⁰ but no details have yet been published. However, it is apparently envisaged that efforts to promote specialization and co-operation should be concentrated on the most capital-intensive sectors, on those offering the largest economies of scale, on sectors where future growth can be expected to be particularly rapid and on new lines of production.

After the meeting, the Secretary-General of the CMEA announced a number of recent decisions by the Council,¹⁰¹ some of which are additional to those earlier reported in ECE SURVEYS and *Bulletins*.¹⁰²

⁹² See the SURVEY for 1960, Chapter II, p. 17, on the introduction of special measures to this end in eastern Germany, Hungary and Poland in 1960. In the Soviet Union export-promotion commissions were created in the Union Republics in 1959, and in 1961 were apparently also set up in the *oblasts*, their tasks including the seeking of new export resources, improvement of quality and packing and reduction of production, storage and transport costs (*Vneshnyaya torgovlya*, No. 10, 1960, pp. 19-22).

⁹³ *Külkereskedelem*, No. 7-8, 1961, pp. 32-33.

⁹⁴ *Zemledsko Zname*, 30 December 1961. The tourist rate for other eastern European countries apparently remains unchanged at 1 rouble = 0.89 leva, subject, however, to any special agreements with individual countries. Values quoted in this chapter are in old leva.

⁹⁵ The Polish Vice-Premier, Mr. Jaroszewicz stated that Albania had sent no representatives to this session, though still a member of CMEA (*Trybuna Ludu*, 16 December 1961).

¹⁰⁰ *Trybuna Ludu*, 30 December 1961.

¹⁰¹ *Ibid.*

¹⁰² See the *Bulletin*, Vol. 13, No. 1, p. 22, and the SURVEY for 1960, Chapter II, p. 17 (including references to earlier reports).

⁹² Eleven months' data.

⁹³ *Die Wirtschaft*, 13 December 1961.

⁹⁴ See the *Bulletin*, Vol. 13, No. 1, p. 22.

	Numbers in thousands			
	1957	1959	1960	1961
Poland: Incoming	115	147	184	..
Outgoing	237	194	216	..
Bulgaria: Incoming	24 ^a	..	..	100 ^a
Hungary: Incoming	76	190	244	278 ^b
Transit	137	221	280	295 ^b
Outgoing ^c	148	224	301	300 ^b
Czechoslovakia: Incoming	82	133	176	..
Outgoing	73	116	157	170 ^a

Sources: *Vneshnyaya torgovya*, No. 2, 1959; *La Bulgarie*, No. 2, 1961; *Rudé Právo*, 9 June 1961; and national statistics.

^a Plan.

^b January-September.

^c Including emigrants.

Although the number of Polish nationals travelling abroad exceeds the number of foreigners visiting Poland there is nevertheless a net foreign exchange gain from tourism.

It has long been decided to connect the electric power grids of all the member countries, and the Central Board of the United Electric-Power Systems has now been established in Prague. According to a subsequent report,¹⁰³ the power systems of eastern Germany, Czechoslovakia, Hungary and Poland were connected in January 1962 and a link between the Ukraine and Hungary is to be established in May, which will result in the import of 1.2 billion kWh a year into Hungary from that source.¹⁰⁴ Inland waterways are to be extended by international links to increase the supply of cheap freight facilities, road transport development is similarly to be co-ordinated and a common policy for maritime transport is to be developed. Specialization agreements now affect 54 types of equipment for the metallurgical industries (of which Poland will produce 15) and 140 types of chemicals equipment¹⁰⁵ (of which Poland will produce 25). The Soviet Union and Poland will produce paper-making machinery for other CMEA countries. The Council is considering the possibilities of specialization in production of about 1,000 products of the chemicals industry.

According to a Bulgarian report,¹⁰⁶ the trade agreements negotiated for the period up to 1965 provide for the following increases in intra-CMEA trade:

Percentage increases, 1958 to 1965

Country	Turnover	Exports	Imports
Albania	25	166	-26
Bulgaria	120	96	125
Czechoslovakia	89	85	94
Eastern Germany	74	65	85
Hungary	100	101	84
Poland	82	94	71
Rumania	89	109	71
Soviet Union	66	64	72
Total above	78	77	80

These rates of increase are considerably higher than those foreseen for total trade turnover in all the countries for which the latter data have been published.¹⁰⁷

The same report also gives the following figures of the increases expected in intra-CMEA trade in particular products:

¹⁰³ *Trybuna Ludu*, 10 January 1962.

¹⁰⁴ *Magyar Nemzet*, 8 October 1961.

¹⁰⁵ This was announced earlier (see the *SURVEY* for 1960, *loc. cit.*).

¹⁰⁶ *Vneshnaya trgovya*, No. 7, 1961.

¹⁰⁷ For references to reports on the long-term plans containing these data, see footnote 151, below.

Index numbers of intra-regional deliveries in 1965

1958 = 100

<i>Machinery and equipment</i>	222	Copper	184
Complete enterprises	195	Zinc	163
Chemicals equipment	690	Aluminium	208
Generating equipment	181	Crude oil	432
Metal-cutting		Cellulose	262
machine tools	240	Phosphate fertilizers	184
Mining equipment	198	<i>Food products</i>	108
Metallurgical		Oil-seeds	167
equipment	253	Grains	81
Oil-refining equipment	200	Meat and meat products	99
Tractors	304	Butter	70
Rolling stock	224	Sugar	179
Lorries	175	Fresh fruit	232
Cars	170	Fresh vegetables	195
<i>Fuels and materials</i>	139	Tinned vegetables	162
Iron ore	207	Tinned fruit	151
Coking coal	228	<i>Consumers' (non-food) goods</i>	170
Pig iron	278		
Rolled steel	164		

Engineering goods are expected to account for 36 per cent of all intra-regional trade in 1965, compared with 28 per cent in 1958; and specialization will clearly not be at the expense of the diversification of the output pattern and exports of the less industrialized countries of the area—Rumanian and Bulgarian exports of engineering products rising, respectively, to nearly five and just over four times the 1958 level while those of the other countries reach 2-2½ times the 1958 volume. The Soviet Union is expected to supply the bulk of the area's oil supplies; Bulgaria is expected to provide 55 per cent of all exports of fresh fruit and 82 per cent of the exports of fresh vegetables.

Some new bilateral co-operation agreements have also been reported. Czechoslovakia is to provide equipment to extend the ports of Constanța, Brăila, Galați and Cernavoda, Rumania paying for this by remitting transit charges on Czechoslovak goods; and Czechoslovak supplies of equipment for copper mining in Bulgaria are to be paid for by later deliveries of copper.

From 1953 to 1958 there was no sustained expansion of Czechoslovak-Polish trade despite the apparently wide opportunities for mutually beneficial exchanges.¹⁰⁸ Since then the trend has changed:

Polish trade with Czechoslovakia

Millions of current dollars

	1957	1958	1959	1960	1961 ^a
Exports	82	73	81	113	145
Imports	95	95	113	127	175

Source: *Gospodarka Planowa*, No. 11, 1961.

^a Provisional.

and this change has been brought about mainly by a

¹⁰⁸ See the *Bulletin*, Vol. 11, No. 1, pp. 72-73.

transformation of Polish exports to Czechoslovakia. Fuels and raw materials constituted 95 per cent of the total in 1955, but only 56 per cent in 1960, machinery and equipment rising from 2 per cent to nearly 40 per cent of the total. Czechoslovak and Polish planners consider that a six-fold rise in mutual trade might be possible over the twenty years to 1980, with exchanges of equipment rising to ten times the 1960 volume. However, the more traditional form of co-operation, through Czechoslovakia's supplying

equipment against future deliveries of raw materials, is also continuing; and the latest agreement, signed in January 1961, provides, *inter alia*, for supplies of Czechoslovak copper-mining and processing equipment to be repaid — partly in copper — during 1969-1978, Poland agreeing to continue to supply 21 per cent of all electrolytic copper produced from the mines equipped by Czechoslovakia (in exchange for Czechoslovak metallurgical products) for at least 5 years after repayment is completed.

4. THE IMPROVEMENT OF ECONOMIC EFFICIENCY

The promotion of a more efficient use of resources continues to occupy an important place in economic policy-making in the eastern European countries and the Soviet Union, and in 1961 steps were taken in three main directions: towards rationalizing the pattern of current inputs, evaluating the use of fixed capital and improving the price mechanism. Some such measures were taken in all countries.

The rationalization of supply

Supply programming based upon technical coefficients and material balances has been the major contribution of Soviet practice to economic planning in eastern Europe, and the overhaul of input norms and the refinement of balance techniques has everywhere been a constant preoccupation of the planning authorities. External factors heightened the importance of this review in two countries in 1961. East German enterprises were pressed to reduce their dependence on west German sources of supply, and this was accompanied by the general application of Soviet technological standards (GOST), both to facilitate increasing transactions with the Soviet Union and to encourage economy of inputs: the import shortage facing Albania necessitated a major economy drive if industry was to maintain its expansion.¹⁰⁹ In the Soviet Union the list of products for which Gosplan issues "guidance limits" for output and consumption was enlarged and specified in greater detail by make, group or model.¹¹⁰ In Hungary the law on the 1961-1965 Plan laid particular emphasis on "concentrating upon products which are of relatively low raw-material content and require processing with highly skilled labour, are of up-to-date standards, and are effectively

in demand."¹¹¹ A review of technical parameters carried out in the Bulgarian engineering and textile industries, and other measures, were expected to reduce the raw-material content of industrial output by 2 per cent during 1961; and in Rumania the reduction of metal consumption achieved in agricultural engineering, for example, was stated to be equivalent to the input for 2,400 seeders or 1,000 grain combines.¹¹²

Improvements continued to be made in costing practice, and in incentives for cost reduction, to support these measures at the enterprise level,¹¹³ but, in the context of both macro- and micro-economic efficiency, the wholesale-price reforms discussed below are likely to be far more important than such improvements, or those mentioned above.

A statement of the Political Bureau of the Polish United Workers' Party outlined a course of action directed to two major problems which have more than strictly national significance. The most serious was the production of sub-standard materials because of the lack of technical standards or because these had been set too low (metallurgical coke and limestone were particularly mentioned). The second problem was the waste of materials due to stock shortage and general tightness of supplies. This led to the ordering of excessive quantities to ensure against future shortage, to acceptance of not quite suitable materials, and to theft and misappropriation.¹¹⁴ The solution to the first problem was seen as the intensification of con-

¹¹¹ *Magyar Közlöny*, 17 October 1961.

¹¹² For Bulgaria, see *Rabotnichesko delo*, 2 and 3 November 1961, and for Rumania, *Scinteia*, 12 February 1962; see also *Probleme economice*, No. 1, 1961.

¹¹³ More detailed industrial costing systems were introduced in Rumania; in Bulgaria a scheme was set up whereby a high proportion of cost savings is earmarked for managerial premia; and intra-enterprise accounting was extended in the Soviet Union, where the basis for cost planning had been simplified two years before by setting cost reduction targets in terms of outlays per rouble of marketable production instead of in terms of unit costs of specific products (Sh. Turetsky, *Vestnik statistiki*, No. 12, 1960, p. 47); on a similar change in Albania, see P. Bollano, *Ekonomia popullore*, No. 5, 1961.

¹¹⁴ *Trybuna Ludu*, 22 November 1961.

¹⁰⁹ The intensity of the drive may be indirectly seen from the consecration to it of nearly one-half of the articles published in the 1961 issues of the organ of the State Planning Commission, *Ekonomia popullore*. One aspect repeatedly stressed in these articles is the need for improved maintenance to reduce consumption of spare parts for machinery and vehicles.

¹¹⁰ Karpov, *op. cit.* The revision of input coefficients required by the July 1960 Plenum of the Central Committee of the Communist Party is now nearing completion (R. Belkina, G. Podshivalenko, *Finansy SSSR*, No. 12, 1961, p. 46).

tractual links between supplier and consumer, an arrangement already being introduced in the Soviet Union under the "co-operative deliveries plan". Efforts to achieve a satisfactory inventory/output ratio in other countries include a Soviet decision to augment this ratio in the remaining years of the Seven-year Plan. Moreover, an inspection by the Soviet State Bank of working capital revealed a serious maldistribution, many enterprises holding excessive materials stocks as a reserve against future possibilities of over-fulfilling output plans or having drawn upon their working-capital funds to finance unauthorized capital repairs.¹¹⁵

The strictures of the Polish Party on the misappropriation of supplies were also voiced elsewhere. The January 1961 Plenum of the Central Committee of the Soviet Communist Party condemned both such misdemeanours and the falsification of reports on plan and pledge fulfilment, and some immediate action against the latter malpractices followed.¹¹⁶ The Central Statistical Administration initiated stricter controls¹¹⁷ and a procurements inspectorate was created as an additional check on farm reporting, but this has led to complaints from agencies supplying data that excessive — and partially useless — detail is required.¹¹⁸ The full severity of the law was invoked in a number of widely publicized prosecutions for fraudulent conversion in eastern European countries also; and, in some, explicit measures were taken to improve the verification of reports by central offices of statistics. In Czechoslovakia this was effected by merging that office with the control services,¹¹⁹ and in Poland regional statistical offices, hitherto responsible to local authorities, were subordinated exclusively to

the central office as part of a general enhancement of the latter's control activities.

The efficiency of use of capital

In the past few years, concern with capital-efficiency has begun to match the attention long given to promoting efficient use of current inputs.¹²⁰ Techniques for assessing relative returns to alternative investment possibilities seem to have been developed furthest in Hungary, where the practice has been introduced of estimating the return on projected investments in foreign-trade prices as well as in domestic prices, and current-cost calculations are also now being made in both sets of prices in all industries producing substantially for export.¹²¹ The 30 per cent devaluation of the Bulgarian lev on 1 January 1962 was intended, as was the similar Soviet reform a year earlier, to facilitate comparison of foreign-market and domestic prices.¹²² The activities of the Council for Mutual Economic Assistance (CMEA) to some extent supplement national efforts to improve measurements of relative economic efficiency; and the Council's elaboration of a common classification of economic activity and its proposals for the standardization of the national accounts of its members should facilitate international comparison of returns to investment in individual sectors and provide a guide for specialization and trade.¹²³

On a purely domestic basis the most important direct contributions to rationalizing the use of capital have been the revaluations of fixed assets and the reforms of depreciation practice. A thorough review was decided upon at the beginning of 1957 in the Soviet Union: the asset revaluation was completed at the end of 1960 and the revised amortization norms have just been established. The major part of the revaluation — in January 1960 — covered all state

¹¹⁵ S. Egorov, V. Morsin, *Dengi i kredit*, No. 12, 1961, especially p. 24. Working capital statistics were published, for the first time since the war, in the 1960 statistical yearbook (pp. 92-101) for 1950, 1955, 1958 and 1959, classified by sector and by use.

¹¹⁶ Revelation of falsification of output statistics in a Leningrad engineering plant appeared in *Pravda* on 27 January, and on 30 January the director and his three main assistants were dismissed. *Izvestia*, 27 January, announced the reinstatement of a miner, dismissed after he had informed higher authority of the falsification of production figures. The First Secretary of the Central Committee of the Kirgiz Party was dismissed after admitting abuses in butter procurement (*Pravda*, 14 January 1961). Legal penalties for false reporting on plan fulfilment were increased in May (see also the *Bulletin*, Vol. 13, No. 2, p. 10).

¹¹⁷ See *Vestnik statistiki*, 1961: No. 1 (A. Ivanova), No. 2 (A. Baturin), No. 3 (N. Savostikova), No. 4 (E. Golemba), No. 6 (editorial), etc.; 1962: No. 1 (S. Sitnikov).

¹¹⁸ See S. Koldunov, an official of the Moscow *Oblast Sovnarkhoz*, *Ekonomicheskaya gazeta*, No. 15 (13 November) 1961. An informal conference convened by that journal and attended by the most senior statistical and planning officials and economists discussed the balance between adequate checking and excessive detail (see *ibid.* No. 17 (27 November) 1961, and *Vestnik statistiki*, No. 1, 1962, pp. 3-17, 78-86).

¹¹⁹ The President also spoke of "a more thorough and systematic control . . . not only from the centre, but also by the factory organizations of the Communist Party, Trade Union organizations and all working people . . . State discipline and personal responsibility . . . must be strengthened" (A. Novotný, *Rudé Právo*, 2 January 1962).

¹²⁰ See particularly the *World Economic Survey 1959*, United Nations, New York, 1960, p. 105; and the *Bulletin*, Vol. 12, No. 1, pp. 65-67.

¹²¹ Z. Thuránszky, Head of the Investment Department in the Central Planning Board, *Külkereskedelem*, No. 6, 1960, pp. 19-21 and *Figyelő*, 8 November 1961. On aspects of the relationship between capital and foreign-trade efficiency in Poland, see S. Kuzinski, *Gospodarka Planowa*, No. 12, 1961; and in Bulgaria, I. Tutev, *Ikonomicheska misl*, No. 8, 1961. See also section 6 below on Mr. Mikoyan's statement on Soviet foreign-trade policy.

¹²² The actual or planned introduction of new customs tariffs in several countries (see section 3 (c)) — to the extent that these have widely varying rates of duty on different products — may also have some significance as indicating the relative differentials between domestic and import costs which are regarded as acceptable by the authorities; but they are undoubtedly more important as commercial policy measures.

¹²³ Some comparisons of fixed capital efficiency and inventory ratios in CMEA countries have already been published. See S. Kovacheva, *Planovo stopanstvo i statistika*, No. 7, 1961; V. Terekhov, V. Shastitko, *Planovoe khozyaistvo*, No. 11, 1961; and A. Zwass, *Gospodarka Planowa*, No. 11, 1961, respectively. These supplement earlier studies limited to physical measures of efficiency, e.g. on labour productivity, technical parameters of capital utilization, etc.

and co-operative organizations (other than collective farms) whose operations are autonomously financed. The sum revealed, of 200 billion roubles, compares with estimates (since raised by revaluation) of 44 billion roubles for the assets of collective farms and state agencies financed from the budget, and of 53 billion roubles (mostly housing and livestock) for assets in private ownership. The 200 billion roubles of state and co-operative assets mentioned above represents their undepreciated value in 1955 prices less some allowance for obsolescence—in other terms, something like replacement cost. It exceeded the original cost (as recorded by the holding enterprises), by 22 billion roubles, or 12 per cent—the value of buildings having been increased by 22 per cent and equipment devalued by 9 per cent. Just under 1 billion roubles of fixed assets not appearing on enterprise books were discovered, and 50 million roubles had been incorrectly entered as working capital.¹²⁴ The review of depreciation charges, the first since 1938, showed that they were falling short of replacement requirements by 1.3-1.4 billion roubles per annum; and they have now been raised as shown below (mean percentage charges on the 1961 stock of assets):¹²⁵

	Old rate	New rate
For replacement	2.2	2.8
For capital repairs	3.0	3.2
Total amortization charge	5.2	6.0

Payments under the new scales—to start in 1963—will increase the annual amortization fund by 2.6 billion roubles (of which 1.5 billion for replacement).¹²⁶

Poland and Hungary have also revised depreciation charges, the former with effect from January 1962, the latter in January 1959; but whereas the effect of the Hungarian reform was, as in the Soviet Union, to raise norms (and hence to curtail the presumed asset life), the Polish revision has lowered them.¹²⁷

¹²⁴ A. Belyakov, *Vestnik statistiki*, No. 10, 1960, pp. 3-11.

¹²⁵ I. Ivanov, *Planovoe khozyaistvo*, No. 12, 1961, pp. 27-36.

¹²⁶ The increase in allocations for replacement exceeds the existing shortfall (mentioned above) because a higher rate of obsolescence is now being assumed, as a deliberate measure to accelerate technical progress. The opportunity has been taken to alter the regulations for capital repairs so that "medium" repairs, which are effected less than once a year, and some "modernization" work can be financed under this head (Ivanov, *op. cit.*).

¹²⁷ A selection from I. Vincze, *Közgazdasági szemle*, No. 7, 1959, pp. 718-729, *Finance*, No. 12, 1961, p. 37, *Monitor Polski*, No. 97 (22 December) 1961 and Ivanov, *op. cit.*, is shown below (combined charge for amortization plus scheduled capital repairs as a percentage of asset value):

	Old rate	New rate
Hungary		
All ministry-controlled industry	5.7	7.1
Poland		
Masonry non-farm buildings	3.0	1.8
Machinery	10.0	8.2
Working livestock	..	8.0
Soviet Union		
Buildings	..	3.1
Motive equipment	..	9.9
Working livestock	..	12.0

However, the upward revision of asset values in Poland, from quite unrealistic levels, more than offset the effect of lower depreciation rates on the share of depreciation in production costs, and the net effect of the reforms in all three countries has been to raise the share of amortization in current outlays of enterprises.¹²⁸

In the operational planning of investment, there has been a general effort to concentrate resources. In the Soviet Union, the 1960 Plan included a list of priority projects whose finance and supply plans were, for the first time, scheduled for their entire construction period, and hence qualified for automatic inclusion in each subsequent annual budget and plan. A regulation of 1961 adds the proviso that no new project whatever may be approved—in the plan of any enterprise or authority—unless similar projects already under construction are also on the list or are otherwise assured of resources for their completion.¹²⁹ A codification of investment regulations in Hungary substitutes construction contracts between the supplying and investing agencies extending over the entire building period for the previous annual contracts on the industrial model.¹³⁰ An investment concentration programme, with strict control over new projects, is envisaged in eastern Germany.¹³¹

Incentives for technical progress

In the absence of any capital charge other than that represented by depreciation allowances, it might be thought unnecessary to encourage enterprise directors to enlarge or adapt their productive capital stock. Indeed, the unmerited cost advantage that an enterprise can derive from capital intensity is a recognized micro-economic problem throughout the region. Equally common, however, is the problem of over-coming managements' reluctance to interrupt production—and risk losing premia for over-fulfilment of output or profit plans—in order to replace or adapt equipment and introduce new techniques, particularly when the adoption of new techniques will bring them no lasting future benefit since production and other plans will be appropriately revised.¹³²

¹²⁸ In eastern Germany the Presidium of the Ministerial Council also decided (on 21 December 1961) to establish a government commission to prepare a revaluation of fixed assets (*Gesetzblatt der DDR*, Part II, 24 January 1962).

¹²⁹ *Stroitelnye materialy*, No. 11, 1961. But an excessive concentration can of course lead to abuse (see V. Davydchenko, *Izvestia*, 2 December 1960, and I. Novikov, *ibid.*, 24 February 1961).

¹³⁰ *Magyar Közlöny*, 9 December 1961, pp. 687-894.

¹³¹ Karl Mewis, at the 14th session of the Central Committee of the SED Party, *Neues Deutschland*, 1 December 1961.

¹³² A Hungarian economist (F. Hadju, *Közgazdasági szemle*, No. 11, 1961) has recently discussed the problems of so phasing innovation in different sectors as to achieve the optimum

Following discussion at the two most recent plenary sessions on industrial affairs of the Central Committee of the Communist Party of the Soviet Union (June 1959 and July 1960), the "Plan for New Techniques" and the annual production plan were formally integrated, for the first time, in 1961. New procedures to assure co-ordination between industry and research organizations were also introduced in 1961, and revised regulations for the Enterprise Fund were applied from the beginning of that year. These established higher allocations of above-plan profits to the Fund, but maxima are graduated by reference to the share of the year's output resulting from the introduction of new techniques. Thus, the total payment must not normally exceed 5.5 per cent of the annual wage bill; but if the share in total output of products which are new to the enterprise is between 10 per cent and 25 per cent, the ceiling for allocations to the Fund may rise to 6-7 per cent of the wage bill.¹³³ Engineering enterprises enjoy higher margins, and other special arrangements now apply to this branch, where the encouragement of technical progress is regarded as particularly urgent: the *sovnarkhozy*, or other administering agencies, are required to make a levy — varying from 1 to 3½ per cent — on production outlays for a "Fund for Mastering New Techniques", from which the costs of future technical innovations in engineering enterprises may be covered until series-output of the resulting product is reached.¹³⁴ A third measure established premia for the managerial staff of non-farm enterprises and personnel of research organizations, varying with the annual cost-saving effected by any new technique; these are financed from profits arising from the resulting cost reduction — not less than 75 per cent of which must, however, be remitted to the *sovnarkhoz* or other administering agency, thus providing an incentive to these higher bodies also.

Not only must these rather complicated arrangements imply difficult accounting and control problems, but it has been shown that under the new system managerial premia have declined and that the enterprise fund is still too small — an average of 20 roubles

balance between the smooth flow of production and rapid technical progress.

¹³³ *Pravda*, 2 July 1960. Not less than 20 per cent of the Enterprise Fund must be used for the further installation of new techniques, or other capital formation, not less than 40 per cent for house and social-amenity construction and house repair and up to 40 per cent for personnel premia, for workers' welfare, for the buying of accommodation at resorts and sanatoria and for staff grants.

¹³⁴ R. Novikov and S. Ryumin, *Finansy SSSR*, No. 1, 1962, pp. 80-81. This replaces a system under which additional costs resulting from the introduction of new techniques were compensated by temporary inflation of the price of the product; but these high prices discouraged purchasers, and the producing enterprise still suffered the disadvantages of a temporary rise in costs (in the form of loss of rewards for cost-reduction).

per year per industrial worker — to exert any real influence.¹³⁵

In eastern Europe similar efforts to give adequate incentives for technical innovation to enterprise directors have been intensified.¹³⁶ In Hungary, outlays on technical development have been, since January 1959, an independent component of enterprise costs which are left out of account in the calculation of fulfilment of profit, or cost-reduction plans; and a fund for technical development has been created at every enterprise, fed by profits resulting from the introduction of new processes or products, though the greater part of these has to be transferred for central allocation. Moreover, enterprises have the power — now greatly used — to draw upon special funds to finance small investment schemes. As in Czechoslovakia since 1958, profit planning in Hungary has been extended from an annual to a long-term basis, so that temporary losses due to installation of new processes can more easily be recouped.

Amendments introduced in 1961 to the system of managerial premia in Hungary also increase the significance of criteria such as quality and design of the product, the keeping of delivery dates and export contracts, productivity increases, and cost reductions; and deductions may be made from premia earned on other accounts if contracts are broken or stock-turnover slowed.

Funds for technical development were set up in Czechoslovakia in 1960, and there the bulk of the proceeds of cost reduction remains for use by the enterprise, instead of being passed on to the administering association. In Poland, the new practice is to spread the loss of profit incurred by installing new processes over the two following years, for the purpose of calculating fulfilment of profit plans. Since 1959 funds for technical development have been set up by Polish ministries, which are fed by levies on subordinate enterprises that are quite independent of the scale of saving realized by technical innovation in those enterprises. In eastern Germany temporary cost increases occasioned by the introduction of new techniques are covered by bank credits. The problem is under study in Rumania, and the Deputy Finance Minister has recommended the creation of enterprise funds to finance technical progress — to be fed by a levy on profits which (as in Poland and the Soviet Union) is not linked to the individual enterprise's savings from technical innovation.¹³⁷

¹³⁵ See E. Manevich (*Voprosy ekonomiki*, No. 5, 1961, pp. 76-85). Proposals to differentiate premia by official, in proportion to his contribution to cost reduction, have been renewed — e.g. in *Ekonomicheskaya gazeta*, No. 3 (15 January) 1962.

¹³⁶ For a detailed survey, see D. Butakov, *Voprosy ekonomiki*, No. 2, 1961.

¹³⁷ See I. Craiu, *Probleme economice*, No. 8, 1961, and I. Grosu, M. Flachs, *Revista de statistică*, No. 11, 1961.

Price reforms

The success of attempts to improve the efficiency of use of economic resources — whether through central planning of the pattern of investment and the level and pattern of foreign trade or through the establishment of incentive systems tending to induce optimum input and output patterns at the enterprise level — is bound to depend heavily on the existence of an ex-enterprise price structure reflecting relative costs and/or relative scarcities.

The 1959 price reform in Hungary was directed mainly towards establishing a wholesale price structure reflecting relative costs, including an allowance for planned profit as a fairly equal percentage of the average of all other costs in each branch; and one significant feature was the raising of depreciation allowances to a rate at which they acted virtually as a capital charge. Partial price reforms were effected in Czechoslovakia at the same time, and are to be completed during 1962-1964;¹³⁸ and the changes in depreciation allowances in Poland and the Soviet Union, described above, will also affect relative prices.

In the Soviet Union a general price review is now in progress, following recommendations by the July 1960 Plenum of the Central Committee of the Communist Party and a subsequent directive by the Council of Ministers to the Ministry of Finance, Gosplan and Gosekonomsovet.¹³⁹ The price structure to be reformed is one in which not only are the wholesale prices of consumers' goods much higher than those of producers' goods in relation to total production costs, direct labour costs or capital intensity (partly owing to the incidence of turnover tax), but also the ratio of price to average cost varies widely within major industrial branches both from product to product and by area. The extractive industries in general produced at a loss — hard-coal, manganese, iron, copper, lead and zinc ore mining and sintering being mentioned as falling into this category, partly as a result of "the substantial rise in wages over recent years not compensated by a corresponding rise in labour-productivity". In ferrous metallurgy most branches made substantial profits in 1960, but at the blast-furnace and convertor stages, and in production of light sections and cold-drawn seamless stainless-steel tubes, plants operated, on average, at a loss. In engineering, some machines showed a 60-80 per cent profit, while certain electric motors, transformers and milling machines showed losses. Among chemicals, synthetic ethyl spirits and acetone yarn showed high rates of profit but polyethylene and carbon disulphide showed losses; nitric-acid production was profitable

in some *sovnarkhozy*, but the reverse in others.¹⁴⁰ Some goods whose utilization should have increased are stated to have been over-priced (plastics and certain chemicals) and, although the Seven-year Plan envisaged the replacement of coal by oil, a ton of fuel oil was 50 per cent dearer than a ton of the best Donets anthracite. The installation of new technology was inhibited, the review showed, by the high prices fixed for electricity, equipment and chemicals.

The review has taken place against a background of lively debate among Soviet economists on pricing principles. The two major issues have been, first, whether calculation of cost should include a capital charge (additional to amortization) and, as a subsidiary question, the admissibility of differential rents for non-reproduceable resources;¹⁴¹ and second, how far the principle that prices should reflect relative costs (however defined) should be modified in the light of relative utilities to the consumer of substitutable materials or equipment.¹⁴² The first question appears to have been decided — at least for the time being — against the advocates of a capital charge, and cost will still be calculated as the value of material inputs at the price paid by the producing enterprise *plus* direct labour cost *plus* amortization *plus* a modest profit related somewhat more closely to value added than to total cost including material inputs. Average production costs will be thus calculated for each product (by zones, if regional variations are significant) on the basis of the actual cost elements of 1961 adjusted for decreases in inputs planned for 1962-1963 and for the revision of amortization charges mentioned above.¹⁴³

The actual prices set, however, may differ from the average cost thus calculated. First, Gosplan may set a special, lower price for enterprises enjoying a differential rent arising from "favourable natural conditions". More important, "the efficiency of use to consumers" must also be taken into account; and the relative efficiencies of substitutable types of equipment or materials are to be assessed in terms of technological parameters (for example, productivity of the machine and the period of recoupment of its cost; for ores, the value of the mineral content).¹⁴⁴ It is

¹⁴⁰ Bachurin, *op. cit.*, p. 15.

¹⁴¹ I. Malyshev, Deputy Head of the Central Statistical Administration of the USSR, and L. Vaag, a Collegium member of the USSR Gosekonomsovet, in *Ekonomicheskaya gazeta*, No. 11 (16 October) 1961, criticized the editors of the organ of academic economics, *Voprosy ekonomiki*, and "many of our leading economists" for opposition to a capital charge. Malyshev and others argued that the planned margin of profit included in the calculation of price should be proportionate to capital employed.

¹⁴² See Sh. Turetsky, *op. cit.*

¹⁴³ See Bachurin, *op. cit.*, for all details in this and subsequent paragraphs on the decisions so far announced as a consequence of the review.

¹⁴⁴ Within the engineering branch changes in prices are intended to stimulate both the production and the purchase of machines embodying new techniques: the price of the new type

¹³⁸ *Finance a úvěr*, No. 8, 1961, pp. 449-458.

¹³⁹ See A. Bachurin, *Planovoe khozyaistvo*, No. 1, 1962, pp. 14-26; L. Maizenberg, *Voprosy ekonomiki*, No. 11, 1961, pp. 42-56; G. Kosyachenko, *Ekonomicheskaya gazeta*, No. 8 (25 September) 1961, and *Finansy SSSR*, No. 12, 1961, pp. 16-26.

stated that "account should also be taken of the aggregated relationship between prices of producers' goods and prices for similar goods on the world market, so that the new prices help towards a more correct definition of the efficiency of the foreign trade operations of the USSR"; but it is not indicated how this is to be done. Finally, it is clear that prices are also intended to reflect relative scarcities to some extent. Prices of coal and coke are to be increased by 30 per cent and those of fuel oil and natural gas will be reduced. A larger rise for coal was discussed; but it was rejected not only on the grounds that the coal industry should be stimulated to earn higher profits by raising labour productivity and cutting other costs, but also because a higher price would have shifted demand away from coal at a time when oil output still could not meet current demand. The profit rate in the oil and gas industry will, it was stated, be "significantly higher than in other branches of heavy industry. However, a more extensive cut in prices for oil and gas would not ensure a correct proportion between the production potential of these branches and the increasing requirements of the economy for oil and gas".

Other intended price changes include a 7 per cent average reduction for oil products (including an increase for diesel fuel—not, however, to affect fuel for tractors—and a major cut in the price of fuel oil), reductions for non-ferrous metals (other than copper, lead and zinc, prices of which will rise), machinery (an average of 10 per cent), chemicals and electricity (both 15 per cent) and railway tariffs (20 per cent), and increases for iron and steel (6 per cent), iron ore (40 per cent), building materials, timber and paper. Moreover, freight tariffs are to be revised so as to reflect more closely relative costs for different types of goods and lengths of haul. So far only price changes in the producer-goods sector have been announced; but it is clear that no change is intended in the present general principle of raising the greater part of the aggregate government revenue from profit allocations and turnover tax in the consumer-goods sector. The general price level for heavy industry will fall by 3 per cent and the average profit earned in that sector will be 9 per cent, against 12 per cent in 1960.¹⁴⁵

Output plans and indicators of plan fulfilment

Interesting features of statements so far made on the results of the review are the explicit recognition that

will be assessed on the basis of its productivity in relation to the old and it is intended "to split the difference between producer and consumer" (Bachurin, *op. cit.* p. 18). Obsolete machines will either be excluded from the new price lists (so that production has to be discontinued) or the price will allow for a very low—even zero—profit.

¹⁴⁵ G. Kosyachenko, *Ekonomicheskaya gazeta*, No. 8, 1961.

the price reform is essential to the improvement of macro-economic planning in the Soviet Union and—even more—the apparent implication that relative prices should in future become a factor influencing decisions at the levels of the *sovnarkhoz* and enterprise. The latter suggests that a further lessening of the emphasis on fulfilment of global output plans as an indicator of an enterprise's "success" may be in prospect, and possibly even a change to expressing output plans, and their fulfilment, in terms of value added.

In all the countries of the region, there has been a tendency for some years past to give some weight to other indicators—such as fulfilment of profit or cost-reduction plans—in assessing entitlement to allocations to the enterprise fund and to premia; but fulfilment of the global output plan has normally been a prior condition for substantial benefit from success in other fields and over-fulfilment of that plan has even been more rewarding than satisfaction of other criteria.¹⁴⁶ To change over to a statement of output plans, and their fulfilment, in terms of value added would replace the existing incentive for excessive material input by incentives both to economize inputs and to produce the most profitable output-assortment. Such a change could be highly desirable once relative prices reflect the logical balancing of relative costs and of relative values (including scarcity value) to the user of the product. The new regulation in Hungary forbidding production without a home or export order¹⁴⁷ is a useful check on over-attention to global indicators at the present time: in the circumstances just envisaged it might still be useful as a check on any tendency to excessive processing of inadequate material inputs in order to ease the fulfilment of plans for "value added".

Interest in the possible usefulness of value added as a plan indicator has resulted in a survey of 477 Soviet industrial plants (from all major branches) which showed the following results yielded by different measures of output, plan fulfilment and productivity:

	Increase 1958 to 1960, increase in global output = 100			
	Fuel	Engineering	Food	All sampled
Sales (i.e. excluding work in progress) .	94.5	98.6	101.5	99.4
Sales less material in- puts (value added) .	94.3	111.4	109.5	106.1
Wages and overheads	94.9	106.6	101.5	102.1

Source: *Vestnik statistiki*, No. 1, 1962, p. 90.

¹⁴⁶ A recent study in Poland, for example, has shown that most trade associations continue to grant premia for global plan fulfilment (see M. Misiak, *Nowe Drogi*, No. 1, 1962, p. 181, in a symposium on enterprise incentives). B. Flick (*ibid.*, p. 178), explained that with many alternative standards legally available for premia payment, enterprise choice was pressed in different directions by different criteria; H. Sobon (*ibid.*, p. 183) pointed to the excess use of inputs that the global measure induced.

¹⁴⁷ *Figyelő*, No. 48, 1961.

Another study in Hungary has shown that there is no reason to assume that the divergence between net and global index numbers will show a systematic long-run bias,¹⁴⁸ but in the short run it is affected by variations in inputs from outside the sector (including imports), in the movement of materials and semi-manufactures between enterprises, and in the material intensity of output,¹⁴⁹ as the following data show:

	Percentage increase from previous year			
	1958	1959	1960	1961
Gross output of:				
State industry	13	11	13	12
Private industry	9	-18	-17	-11
All industry	11	9	12	11
Net output of:				
State industry	13	11	13	11
All industry	12	10	12	10
Gross output of:				
Animal production	17	—	-5	6 *
Crop production	-2	8	-6	-6 *
All agriculture	6	6	-5	-1
Net output of:				
Animal production	13	-16.1	..	..
Crop production	-7	11	..	..
All agriculture	3	4.1	-10	-8-10 *

Sources: *Az Ipar termelése és szerkezete (1949-1959)*, p. 76; *Statistikai évkönyv*, pp. 77, 80, 149; *A mezőgazdaság eredményei 1958-ban*, p. 15; *A mezőgazdaság eredményei 1959-ban*, pp. 17-18; *Népszabadság*, 24 December 1961 and 21 January 1962; *Statistikai havi közlemények*, No. 1, 1962, p. 59.

¹⁴⁸ A. Bródy, *Közgazdasági szemle*, No. 11, 1961, pp. 1352-1362.

¹⁴⁹ See also the SURVEY for 1958, Chapter I, pp. 1-4.

For several years the Polish Statistical Office has published an index of "final" agricultural output, which excludes all double-counting of feed and seed, but has now suggested the introduction of an index net of imports of agricultural origin. The results obtained from the calculation of these various indices have recently been published (previous year = 100):

	1957	1958	1959	1960
Global output	104.1	103.0	99.1	105.4
Final gross output	105.0	104.8	98.1	104.0
Final net output	106.3	104.4	97.2	102.5

Source: *Gospodarka Planowa*, No. 11, 1961, p. 30.

The separation of intermediate goods from final output is an essential element of an input/output table and the utilization of such tables as a planning tool is a further incentive to the substitution of value added for global aggregates. Input/output tables have now been published covering two years for Hungary and Poland, the transaction matrix alone has appeared in the Soviet Union and eastern Germany (both covering 1959),¹⁵⁰ and tables are in preparation in Bulgaria and Rumania. In the Soviet Union a table was being drawn up for 1962 to underlie the annual plan, and in Hungary one has been elaborated for the 1965 plan horizon.

¹⁵⁰ The tables are in *Statistikai évkönyv*, 1958, pp. 375-387 (for 1957) and *ibid.*, 1959, pp. 381-391 (for 1959); *Rocznik statystyczny*, 1959, pp. 62-63 (for 1957) and *ibid.*, 1961, pp. 66-67 (for 1958); *Narodnoe khozaystvo SSSR v 1960 godu*, pp. 104-143; and *Statistische Praxis*, No. 6, 1961, pp. 141-145 and No. 7, 1961, pp. 175-179.

5. THE 1962 PLANS AND THE LONGER-TERM TARGETS

Rates of industrial expansion up to 1965

As was noted in section 2, the pace of industrial expansion has slackened significantly during the last three years in Albania, Bulgaria and eastern Germany and, to a smaller extent, in Czechoslovakia and the Soviet Union. It has been maintained, or accelerated, in Hungary, Poland and Rumania. The 1962 plans for all countries except Bulgaria and Czechoslovakia apparently foresee a slower growth of global industrial output in that year than was achieved in 1961, though the planned rates remain generally high — 6 per cent in Albania, about 8 per cent in the Soviet Union and Hungary, 8½ per cent in Poland, 10 per cent in Bulgaria and Czechoslovakia and 13½ per cent in Rumania (no plan for eastern Germany has yet been published).¹⁵¹ Over-fulfilment of industrial production

plans is, however, normal in these countries, and it is improbable that any marked further slackening of the pace of expansion is really expected by the planning authorities. Nevertheless, the 1962 targets in the Soviet Union and Albania — but not those in any other country — are below the rates of growth planned for 1961.

Seven countries of the area (all except Bulgaria) have now published long-term plans for varying periods ending in 1965; and six of the seven (the exception being eastern Germany) have succeeded during the last three years in achieving average annual rates of growth of global industrial production exceeding — in some countries by considerable margins —

¹⁵¹ See Table 1. The tables in the earlier sections of this chapter include the targets of the 1962 plans, to the extent that these have been stated in quantitative terms, together with target rates of growth set in the current long-term plans (ending in 1965) for the major aggregates such as national income, global output of

agriculture and industry, and growth rates of industrial labour force and labour productivity. For reviews of the original five, six or seven year plans ending in 1965, and of subsequent revisions, see the SURVEY for 1959, Chapters III and IV, the SURVEY for 1960, Chapter II, section 5, and Chapter VI, pp. 14-15, and the *Bulletin*, Vol. 13, No. 2, pp. 7 and 98-100. The only country of the region which has not yet published its targets for 1965 is Bulgaria, although it was announced more than a year ago that 1961 would be the first year of a new Bulgarian five-year plan.

those originally foreseen for the plan period. Indeed Czechoslovak and Hungarian experience was sufficiently encouraging for the former country's original 1965 target for industrial output to be raised by 4 per cent in 1960 and for the latter country's corresponding target to be raised by 10 per cent in 1961.¹⁵² None of the current 1965 objectives for global industrial production, except that of eastern Germany, looks unduly ambitious in the light of recent achievements, the long-term growth rates generally being insignificantly different from those of the 1962 plans (see Table 1). Albania is an exception, in that the planned long-term rate is 8.7 per cent against 6 per cent in the 1962 plan; but the former rate is not high in comparison with the achievements of the recent past. However, the apparent interruption of economic relations between Albania and the Soviet Union is a factor making any assessment of the future of the Albanian economy very difficult at the present time; and in eastern Germany, also, it seems that the 1965 targets must be in process of revision (see below).

The relative contributions of employment and of labour productivity to the excess of the rates of industrial expansion in the recent past over those foreseen in the long-term plans have varied considerably from one country to another (see Table 5). In the Soviet Union the whole excess in 1960 and 1961 was due to the growth of the industrial labour force at a rate faster than planned, while the rise of productivity remained well below the expected 1959-1965 average rate. This may be largely attributable to the considerable reduction of average working hours during the last two years—a process that will not continue on the same scale in future; but in Czechoslovakia reductions in working hours apparently only partially explain the failure of productivity growth in 1961 to reach the rate planned for 1961-1965.¹⁵³ The rise of labour productivity in eastern Germany has also clearly lagged behind the plan; but in Hungary, Poland and Rumania, by contrast, the average rates of increase of the long-term plans have so far been exceeded—as, in the first two of these countries, have the planned rates of increase in employment also.

Cost reduction and higher output per man are now a priority objective of policy in most countries of the area. The measures being introduced to stimulate technological progress, economy of fuels and raw materials, and improvements in planning techniques and efficiency of management, and the latest stages in the continuing reform of wage systems and incentives, have been discussed in preceding sections.

In all the national plans for 1962 so far available, increases in labour productivity—of 8½ per cent in Rumania, just over 7 per cent in Bulgaria and Czechoslovakia and about 5½ per cent in Hungary, Poland and the Soviet Union—are expected to contribute, as in 1961, between two-thirds and three-quarters of the planned increase of global industrial output, with industrial employment rising in all these countries by about 2½ per cent (or 4½ per cent in Rumania). The relative modesty of the industrial output targets for Hungary and Poland is, of course, reflected in the apparent targets for productivity growth in those countries. In Hungary it is hoped that, in fact, labour productivity will contribute at least two-thirds of future increments of output. However, in Poland the growth of labour productivity during the last two years reflected the special efforts made to restrain the rise of industrial employment (see section 2) and could not be expected to continue at the same rate; and the Polish planning authorities now foresee that rising employment will contribute a larger share of the increment of industrial output up to 1965 than had originally been expected. The Czechoslovak plan foresees a recovery in 1962 from the deceleration of productivity growth experienced in 1961, though not the full attainment of the target rate of the 1961-1965 plan; and the Soviet plan for labour productivity in 1962 assumes a rate of increase about equal to the average of the Seven-year Plan, implying a sharp reduction in recent rates of intake of additional labour.

The pattern of industrial expansion in 1962

In all the countries for which data are available, the pattern of the planned industrial expansion in 1962 is broadly that of the preceding year and also of the long-term plans.

In Czechoslovakia few output targets have been published; but brown-coal production in 1962 is now expected to exceed by 5 per cent the volume originally foreseen for that year under the five-year plan, and planned progress in the chemicals industry is also rather more rapid than originally envisaged, despite a lag in the installation of capacity.¹⁵⁴ It is hoped to compensate in 1962 the previous year's shortfall on planned output of steel and rolled products, by raising output by 12-14 per cent. Production of consumers' manufactures has been running well ahead of the five-year plan rates, and the expected 7 per cent increase in 1962 over the previous year's volume would represent the achievement of nearly 60 per cent of the increment originally planned for the years up to 1965. About two-thirds of the expected increment

¹⁵² See the SURVEY for 1960, Chapter II, Table 18, and p. 46 below. There was also an insignificant upward revision—by 1½ per cent—of the Polish 1965 target for industrial output.

¹⁵³ See section 2, and especially footnote 19.

¹⁵⁴ According to *Rudé Právo*, 1 December 1961, construction of new capacities in the chemicals industry was less than originally planned in 1961 and will be in 1962 also.

of engineering output in 1962 will be devoted to supplying equipment needed by the priority branches of industry — chemicals, metallurgy and electric power ; but it is doubtful whether installations in all the major “centralized” investment projects can reach the levels originally planned for that year — partly because of the unsatisfactory composition of engineering output in 1961.

The engineering and chemicals branches are expected to lead the industrial expansion in Hungary, Poland and Rumania in 1962, as in the previous year. Percentage increments of output of 11 and 15, respectively, are foreseen in Hungary, of 20 and 25, respectively, in Rumania and of $12\frac{1}{2}$ in each branch in Poland — increases well above the industrial average in all three countries. Hungarian policy continues to favour particularly fast development of those branches of engineering in which the input of skill is high in relation to metal content ; and output of telecommunications equipment, for example, is planned to rise by $17\frac{1}{2}$ per cent in 1962.

In Poland, the target rate of increase of electric power generation (11.8 per cent) is only slightly below that of the two leading branches just mentioned ; and investment outlays in this branch are to be increased by 5 per cent above the 1961 volume with the object, *inter alia*, of overtaking arrears of installations under the 1961 plan (see section 2). Within the engineering branch, output of turbines, steam boilers, diesel locomotives, and diesel engines for lorries is planned to rise particularly fast ; and fertilizers, sulphur, sulphuric acid and dyestuffs are to lead the expansion of chemicals output. It has been stated that the distribution of industrial investment in 1962 will be very similar to the pattern foreseen for that year in the five-year plan — which would imply about 19 per cent of the total for fuels, 12 per cent for electric power and the same for metallurgy, 10 per cent for chemicals and 5 per cent for engineering.

The 25 per cent rise in the global output of the chemicals industry in Rumania should include a 50 per cent increase in production of chemical fertilizers, following the entry into production of a major new nitrogenous-fertilizer plant, and cellulose and synthetic fibre output are also expected to rise very fast. The rapid rise of engineering output is expected to permit, *inter alia*, the achievement of a level of exports of engineering products $2\frac{1}{2}$ times that of 1959.¹⁵⁵ Within the petroleum branch, the continuing efforts to increase the degree of refining are expected to raise the average value of final output per ton of crude petroleum by 10 per cent, notably by the development of petrochemicals. Planned additions to electric generating

capacity in 1962 are the equivalent of 16 per cent of the capacity existing in 1961.

The outstanding feature of the Bulgarian plans for industrial expansion is the continued change in the distribution of centrally planned investment (first apparent in the 1961 plan) in favour of industry, and particularly of heavy industry, at the expense of agriculture (see Table 15). The two favoured branches of industry are fuels and power and ferrous metallurgy — due to receive about 20 per cent and 14 per cent, respectively, of all centrally planned outlays. Moreover, $43\frac{1}{2}$ per cent of all centrally planned investment outlays in industry will be concentrated on five major projects — the Kremikovtzi steel works, the Burgas oil refinery, the East Maritsa thermal-electric plant, the Stara Zagora nitrogenous fertilizer plant, and the Medet ore combine. Planned rates of expansion of output in 1962 are highest in the ferrous metallurgy and engineering branches — nearly 30 per cent and nearly 18 per cent respectively — followed by chemicals ($15\frac{1}{2}$ per cent) and building materials ($14\frac{1}{2}$ per cent).

The 1962 plan for the Soviet Union, as published, contains no global output targets for industrial branches apart from engineering (a rise of 12 per cent against 16 per cent achieved in 1961), and very few targets for individual products. The latter, however, indicate a continuation of the change in the balance of fuel supplies in progress for some years past — output of natural gas, electric power and crude petroleum being planned to rise by 19, 12 and 11 per cent, respectively, compared with 1 per cent for coal.¹⁵⁶ Steel production is to rise by about 8 per cent to 77 million tons. Fertilizer production and output of artificial and synthetic fibres are both planned to rise by 12 per cent ; but the more dynamic products of the chemicals industry are synthetic rubber, plastics and synthetic ammonia, with planned percentage increases in output of 21, 26 and 28 respectively. The targets for the chemicals industry thus suggest that the growth of output in that branch in 1962 may at last begin to approach the 17 per cent annual rate of expansion laid down in the 1959-1965 plan.

More interesting, however, is a recent announcement about the planned composition of “group A” production (output of producers’ goods) in the Soviet Union in 1962.¹⁵⁷ It has been stated that although output of “group A” goods will rise faster than total industrial output (by 8.8 per cent and 8.1 per cent, respectively), output of those destined for the light and food industries and agriculture will rise by 17 per cent “in order to bring to life the line decided upon by the XXII Party Congress about the narrowing of

¹⁵⁵ On the sudden rise of Rumanian exports since 1959 and plans for the future, see the *Bulletin*, Vol. 13, No. 1, pp. 25, 41 and 42 and No. 2, pp. 95-97 and below.

¹⁵⁶ The share of oil and gas in primary energy supplies will thus reach $45\frac{1}{2}$ per cent compared with 32 per cent in 1958.

¹⁵⁷ *Pravda*, 7 December 1961.

the gap between the rates of growth of group A and group B".¹⁵⁸

Information on industrial investment plans in the Soviet Union is meagre. The textiles, clothing and footwear branch is apparently to receive an increase of 33½ per cent in investment outlays — representing a very considerably increased share of the total, for which an 8.1 per cent increment is planned.¹⁵⁹ Output of equipment for the chemicals industry is to rise by 17.7 per cent, but this can offer only a relatively small contribution towards overtaking the backlog of planned installations in that branch.

Agricultural output plans for 1962 and 1965

The 1962 plans for global industrial output and, in general, those for 1965 look perfectly feasible when viewed against the achievement of the recent past, the current rates of investment and the efforts now being made to improve the efficiency of planning and management. But the same cannot be said of the plans for agriculture, with the possible exception of the relatively modest Polish plans.

For farm output, 1961 was a successful year only in Poland (see section 2 above); and the rather favourable weather conditions that contributed to the 10 per cent rise of global output in that country can hardly be counted upon in 1962, so that this year's plan provides for a rise of less than 2 per cent. However, the rates of increase planned for 1962 in other countries (9-10 per cent in Hungary and Czechoslovakia, 25 per cent in Bulgaria and 20 per cent or more in Albania) are higher than would continue the past trend while compensating for the particularly poor results of the preceding year — or, in Hungary, two years.¹⁶⁰ In the Soviet Union the procurement plan for 1962 includes percentage increases over 1961 procurements of 22 for grain, 13 for cotton, more than 10 for cattle and 14 for milk; but this reflects, in part, a continuing centralization of off-farm sales and no output goals have been published.¹⁶¹ The achievement of the 1965 targets in a year of normal natural conditions would imply rates of progress during the next four years in Czechoslovakia, Hungary, Rumania and the Soviet Union that have not yet been approached over any comparable period (after allowing for differences in weather conditions) in these countries.¹⁶²

¹⁵⁸ The possibility of a change of this kind was discussed in the last SURVEY (see Chapter II, pp. 32-33).

¹⁵⁹ Both figures refer to state centralized investment only.

¹⁶⁰ No plans for this branch have yet been announced in eastern Germany or Rumania.

¹⁶¹ The policy of increasing the share of central procurement in total output was enunciated by the Chairman of the Council of Ministers in a speech at Kiev (see *Pravda*, 1 February 1961).

¹⁶² See the SURVEY for 1960, Chapter IV, and particularly section 5.

However, the increase in investment and other inputs into agriculture in 1961, noted in sections 2 and 3, is to continue in 1962 in all countries for which data are available. Moreover, it may be hoped that, with collectivization now virtually completed in all countries except Poland (and there not to be forced), the imminence of institutional changes may have a less inhibiting effect on agricultural development in the future than it had in some countries in the past, even though uncertainties about the future of the private plots and privately owned livestock remain. On the other hand, some of the new co-operative farms are by no means yet fully organized or adequately equipped.

In Hungary centrally planned investment outlays in agriculture in 1962 are to be above those planned for 1961; and the planned supplies to state and co-operative farms and MTS of 6,940 tractors, 3,735 tractor ploughs, 1,250 grain combines, 1,500 seed drills, and 3,000 grass mowers represent — for the first three categories of machines — the equivalent of 15, 9 and 16 per cent, respectively, of the end-1961 stock. High-yielding strains of wheat are to be sown on 41 per cent of the area under that crop in 1962, 65-70 per cent of the maize area will be sown to hybrid strains, and 17 per cent more fertilizer will be used. It is hoped to raise livestock numbers (see Table 11 above) and additional imports are to fill the fodder gap.

Livestock numbers are planned to rise in Poland also, the livestock branch contributing the bulk of the rise in global agricultural output mentioned above; and this development should be supported by the improved fodder supplies carried over from the good 1961 harvest. The plan provides for a 15 per cent rise in investment outlays, including allocations of funds to the agricultural circles which have, so far, been spending rather slowly. Supplies of machinery are expected to increase by 25½ per cent, and of building materials by 5-10 per cent, and fertilizer application per hectare is to rise by about 5 per cent.

The Bulgarian plan foresees a 6 per cent rise in investment in agriculture and forestry, largely in the form of machinery and irrigation works. The irrigated area is to be extended by another 8 per cent, fertilizer application per hectare is to be increased by 6½ per cent, and 90-95 per cent of the areas under wheat and maize are to be supplied with tested seeds. The area under fodder grain is to be increased to support a hoped-for rise in livestock numbers.

Czechoslovakia and eastern Germany seem to be the countries least likely to bring about a marked improvement in farm output in 1962, despite the rather ambitious target set in the former country. There is little hope of any easing of the shortage of farm labour until the reorganization and equipment of

the new co-operative farms has been carried much farther; and in Czechoslovakia, although investment outlays are to be 11 per cent greater in 1962 than in 1961, supplies of fertilizers and machinery will nevertheless be lower than was originally envisaged for this stage of the five-year plan.

In Albania, the curtailment of economic relations with the Soviet Union and other countries of eastern Europe led in 1961 to a change in the pattern of agricultural output in the direction of more assured self-sufficiency in basic food supplies (see section 2); and in 1962 a further increase in bread-grain production of 41 per cent is planned, together with increases of 21 per cent for cotton and 12 per cent for sugar-beet. While increasing irrigation may permit some extension of double cropping, as well as of the actual surface cultivated, it must be assumed that some part of the increased sowings of these crops will be at the expense of others — such as tobacco and fruit — previously intended to be grown on a large scale for export to other countries of the area.¹⁶³ Mechanization is intended to continue, the tractor park rising by 400 units (of 15 h.p.) to 5,570 by the end of 1962.¹⁶⁴

The distribution of national income in 1962

Few data on the expected distribution of national income in 1962 are yet available; but such indications as there are suggest considerable differences in the relative increases of investment and consumption from country to country. Foreign trade plans generally foresee about the 1961 rates of increase in turnover, or some acceleration, though Poland is an exception (see Table 20).

The share of accumulation in Soviet national income is apparently to be virtually unchanged, even though state centrally planned investment is intended to increase by 8.1 per cent while national income rises by 8.6 per cent. Housing and other social capital formation is expected to account for 35 per cent of all construction.¹⁶⁵ A 6.5 per cent rise in the money wage bill and a 7.2 per cent rise in retail trade turnover are planned, the former implying a 2.7 per cent increase in the average nominal wage; and the social fund is to rise by more than 7 per cent.

¹⁶³ See the SURVEY for 1960, Chapter IV, pp. 46-47. When the long-term plan directives were adopted in February 1961, the target for global agricultural output in 1965 was raised from a 64 per cent to a 72 per cent increase over the 1960 level — a compound annual rate of growth of 11.5 per cent instead of 10.4 per cent.

¹⁶⁴ Some of these are being imported from mainland China, which has now begun deliveries under the trade agreement signed in February 1961 (see *Zeri i Popullit*, 29 January 1962).

¹⁶⁵ Such social investment was 32 per cent of all fixed investment in 1960; but construction forms a larger share of social investment than of the total.

In eastern Germany it seems, though no plan has yet been published, that some acceleration of the rate of expansion of national income is expected in 1962 after the slowing down last year described in section 1. However, investment outlays are apparently to be somewhat less than DM 17 billion,¹⁶⁶ or very near to the level planned — but not achieved — in 1961. Shortages of consumers' supplies — of industrial goods as well as of foodstuffs — reported during 1961 suggest that there can be little carry-over of stocks to support increases in consumption this year, and that the scale of the possible increase will depend entirely on the rate of current output. The east German authorities continue to stress the importance of reducing the import bill for foodstuffs — about 30 per cent of export earnings, and thus probably of total imports also — and clearly will be unwilling to see food consumption rise next year much faster than farm output.

No estimate of the balance of planned resource distribution between consumption and investment is yet available for Czechoslovakia, though retail trade turnover is planned to rise by 5 per cent. The concentration of investment efforts on priority projects will clearly be one feature of the 1962 policy — as in most other countries — since the excessive dispersion of funds and materials over “decentralized” projects in 1960 and 1961 has hampered the completion of other major works of greater importance for the long-run development of the economy.

In Hungary net material product is planned to rise by 9 per cent in 1962, and state and co-operative investment outlays to recover from the previous year's 20 per cent reduction — though not quite to the 1960 level. More than half the increase has been earmarked for defence, administrative and social investment. Investment in industry is expected to be only 3 per cent above the levels planned for 1961, and outlays in agriculture 9 per cent higher, but the transport sector will receive 29 per cent more funds. The completion of projects already under way is to be given extremely high priority and new starts are supposed to absorb no more than 10 per cent of investment funds. As a consequence of strict control over the starting of new works, it is hoped to complete 168 major projects in the course of the year.

The consumption fund in Hungary is planned to rise by 4 per cent in 1962, permitting a modest (2½ per cent) rise in per capita incomes of wage and salary earners and — if the plans for farm output are realized — peasants. However, the composition, and to some extent the volume, of the increment of personal consumption will depend on the performance of agriculture. No increase in the rate of supplies of potatoes and other vegetables is expected to be pos-

¹⁶⁶ See *Neues Deutschland*, 1 December 1961.

sible before the next harvest; but improvements in supplies of meat, dairy products and eggs are promised (although, according to the text of the plan, "the possibility of temporary shortages cannot be excluded"), as well as of canned foodstuffs and consumers' durable goods.

In Poland the 7 per cent increase in distributed national income planned for 1962 is intended to permit a rise of about 10 per cent in fixed investment outlays and of about 4 per cent in personal consumption. The planned 15 per cent rise in investment outlays in agriculture has already been mentioned; industrial investment outlays are expected to rise by 15 per cent and outlays on housing and health and education services by about 5 per cent. About 1 per cent of national income produced is apparently to be devoted to improving the balance of foreign trade, exports rising by 9 per cent but imports by only 2 per cent.

In Bulgaria, a planned rise of some 14 per cent in national income is heavily dependent on achievement of the ambitious plans for agricultural output; and the predicted increases in the average wage (about 2.3 per cent) and in centrally planned investment outlays (11 per cent) suggest that the allocation of the expected increment of national income is being approached with understandable caution. However, as in Poland and Rumania, it is also planned to devote some part of the increase in output to improving the balance of foreign trade; and exports are planned to rise by 20 per cent but imports by only about 11½ per cent.

In Rumania the rate of accumulation is likely to rise, since the 1962 plan envisages increases of 15 per cent in state investments and of 6½ per cent in real wages within a 13 per cent rise of national income. Exports are planned to increase by 17 per cent and imports by 14 per cent.

*Revisions of the 1965 plans in eastern Europe*¹⁶⁷

Hungary

The most substantial revision of any 1965 plan targets yet reported was announced in 1961 in Hungary, and the results are summarized in Table 21.¹⁶⁸ As already mentioned, the favourable development of total output and labour productivity in industry during 1959 and 1960 encouraged the Hungarian authorities to raise their sights for 1965; and a slightly faster rise of industrial employment than originally planned is also now expected. The acceleration of the

¹⁶⁷ For references to reviews of the original plans and subsequent revisions, see footnote 151. The new 20-year programme of the Soviet Union, and the latest revisions of the 1965 targets for that country are discussed in section 6.

¹⁶⁸ These revisions were discussed in the *Bulletin*, Vol. 13, No. 2, p. 7, in the light of the data then available, some of which have been corrected in later sources forming the basis for the figures in Table 21.

TABLE 21

Indicators of development under the Hungarian Five-year Plan, 1961-1965

	Plan as published in 1961		Directives of 1959
	1960 to 1965	1958 to 1965 implied	1958 to 1965
<i>Percentage increases</i>			
Net material product	36	60	50
Global output: industry	48-50	82-84	65-70
agriculture	22-23 ^a	29-30 ^b	30-32 ^b
Output per man in industry . . .	32-33 ^c	48-49 ^c	37-40
Employment in industry	12-14 ^c	25-28 ^c	18-24
Personal consumption	22-23	40-41	40-45
Per capita real personal income .	16-17	32-33	26-29
Exports	61	103	} 55
Imports	33	106	
<i>Billion forints at 1959 prices</i>			
Gross fixed investment outlays	180 ^d	255 ^d	^e

Sources: *Társadalmi Szemle*, No. 10, 1959, pp. 114, 128; *Külkereskedelem*, No. 11, 1959, p. 4; *Statistikai évkönyv*, 1960, pp. 55, 62-63, 77, 80, 149, 229; *A nemzeti jövedelem és a lakosság életkörülményei a hároméves terv időszakában*, 1961, pp. 8, 101; *Statistikai havi közlemények*, No. 11, 1961, p. 66; *Magyar Közlöny*, No. 74, 1961, pp. 553-568.

^a Average 1961-1965 over 1956-1960.

^b Average 1961-1965 over 1954-1958.

^c State and co-operative industry only.

^d Aggregate outlays during the five years 1961-1965 and during 1959-1965, respectively.

^e The Directives of 1959 provided for aggregate investment outlays of 200-205 billion forints during 1961-1965.

rise of industrial output and national income is to be achieved with a 10 per cent smaller volume of fixed investment during 1961-1965 than was originally planned, implying average annual outlays during the period of 36 billion forints (instead of 41 billion), which represents a slight reduction even on the actual outlays of 1959 and 1960 (75 billion in the two years).

This economy of investment resources is expected to be achieved largely by concentrating on completion of projects already under way and on fuller utilization of existing capacities; but some savings on investment costs as earlier estimated are also considered possible.¹⁶⁹ Industry will receive 46-48 per cent of total outlays and agriculture 17-19 per cent, leaving 33-37 per cent for other sectors.¹⁷⁰ The planned distribution of industrial investment outlays and the increases in output to which they are to contribute are shown in Table 22. The largest proportionate additions to the 1960 capital stock are planned for the chemicals

¹⁶⁹ See the *Bulletin*, *loc. cit.*, and section 2 above.

¹⁷⁰ The corresponding percentages during 1949-1958 were 43, 14 and 43; in 1959-1960 they were 40, 19, 41. Thus the share of sectors other than industry and agriculture is to be significantly reduced.

TABLE 22

Industrial capital stock, investment outlays and growth of global output under the Hungarian 1961-1965 plan

Industrial branch	Fixed capital stock in 1960 ^a (1)	Planned investment outlays ^b 1961-1965 (2)	(2) as percentage of (1)	Output in 1965 Index number 1960=100
	<i>Percentages</i>			
Mining	14.0	18.8	134	132
Electric power . .	17.6	19.1	109	155
Building materials	4.9	6.4	131	144
Chemicals	8.8	16.9	192	175
Metallurgy	12.1	11.4	94	147
Metal-using	17.9	10.7	60	163-165
Light industries . .	11.7	10.7	91	135
Food processing . .	13.0	6.0	46	140-142
All industry	100.0	100.0	100	148-150
of which:				
Heavy sector . . .	75.3	83.3	111	156 ^c
Light sector . . .	24.7	16.7	68	138 ^d

Sources: *Közgazdasági Szemle*, No. 11, 1961, pp. 1273-1274; *Statistikai évkönyv*, 1960, pp. 94, 108, 132.

^a State sector only (99 per cent of the socialist sector, to which data on investment outlays and production apply).

^b Excluding capital repairs.

^c Producers' goods (Group A), 151-153.

^d Consumers' goods (Group B), 142-144.

branch, followed by mining and building materials. The first-named branch also leads the planned output expansion; but it is followed by the metal-using industries and returns to investment in mining are expected to be particularly low. The metal-using industries are to receive a relatively small increment of capital stock, and it is clear that better utilization of capacity is intended to contribute heavily to the growth of output in this branch, and also in food-processing. The revised plan provides for a significant increase in the trade-dependence of the Hungarian economy (see Table 21); and the growth, and changing pattern, of output in the metal-using industries are intended to provide the main support for the planned 61 per cent rise in exports from 1960 to 1965.

Another striking feature of the revision of the 1959 Directives is that the additional increment of national income and the saving on investment outlays now foreseen are not apparently expected to permit a higher level of consumption in 1965 than had originally been planned. The explanation may in part lie in a re-phasing of consumption and investment plans to permit a somewhat quicker attainment of the 1965 level of consumption, though there is no hint of this in current policies or statements. Part of the resources released are, however, specifically reserved to meet "a steeper rise in defence and other expenditures than had been foreseen at the Party Congress".¹⁷¹

¹⁷¹ See the *Bulletin*, loc. cit.

Eastern Germany

No formal revision of the east German plan for 1959-1965 has been announced, and the east German authorities have repeatedly emphasized that, although 1961 and 1962 must be considered years of reorganization and adjustment, 1963 will see a return to the trend of development envisaged in the plan. Since the rates of expansion of both industrial output and labour productivity have been below the seven-year plan average in both 1960 and 1961 and the labour supply situation has become, if anything, even worse than was envisaged in 1959,¹⁷² some lowering of the sights for 1965 must be expected. But there seems little reason to change the general aims of the original plan, which was designed essentially to raise labour productivity by labour-saving investment and by increasing specialization in "skill-intensive" production — implying a growing dependence on foreign trade with material-intensive imports balanced by skill-intensive exports.

Albania

In Albania recent events affecting that country's relations with the Soviet Union have had economic consequences which seem certain to lead to revisions of the long-term plan unless substitute flows of trade — and of aid — can rapidly be developed. In the past, trade with the Soviet Union has accounted for about 50 per cent (or sometimes an even larger share) of total Albanian trade turnover. In 1959 Soviet supplies of wheat were almost equal to Albanian production, nearly all imports of tractors came from the Soviet Union, and Soviet equipment and technical advice were vital for the industrialization achieved under the Second Five-year Plan (1956-1960).¹⁷³ The Third Five-year Plan was based on the expectation of similar support from the Soviet Union, though it subsumed a smaller volume of credit.¹⁷⁴ According to Soviet sources,¹⁷⁵ the Soviet Union was committed in mid-1960 to supplying all equipment, and specialists to undertake the projecting and assembly work, for 75 factories and large installations (of which 28 were wholly or partly in commission) and 30 smaller installations (of which 17 wholly or partly commissioned). Expected support from other eastern European countries (for example Czechoslovak aid in constructing a chemicals-metallurgical combine) and from mainland China (in constructing 25 factories¹⁷⁶) was significant,

¹⁷² *Ibid.*, p. 3.

¹⁷³ See the *SURVEY* for 1960, Chapter VI, p. 13.

¹⁷⁴ *Ibid.*, p. 15.

¹⁷⁵ I. Kapranov, *Vneshnyaya trgovlya*, No. 6, 1961.

¹⁷⁶ Under a series of economic agreements signed in January 1961.

but by no means on the same scale. In the field of education and training, also, Soviet and eastern European assistance has until recently been very large.¹⁷⁷

According to Albanian sources,¹⁷⁸ all Soviet credits to Albania have now been suspended. Soviet specialists have been withdrawn from the country, scholarships for Albanians to study in the Soviet Union are no longer available and trade relations have been "almost entirely suspended". If this is indeed the situation, and it continues, revision of the Third Five-year Plan will be inevitable, unless greatly increased support is forthcoming from other sources. Some indications of the likely direction of changes in agriculture were mentioned above. The only change in plans for industry announced during 1961 was brought about by the discovery of a new copper deposit—the richest in the country—near Kukës. Its exploitation will begin with the sinking of a mine in 1962, a new smelter is to be commissioned in 1963, and it is thus hoped to raise output of blister copper by 1965 to five times the 1960 level, instead of the 200 per cent increase foreseen in the Plan Directives. A new series of economic agreements with mainland China, announced in January 1962, are stated to cover, *inter alia*, "an important credit" to Albania, but the amount has not yet been specified. Albania will supply chrome ore, crude petroleum, copper and tobacco to mainland China in return for cereals, rolled steel, tractors, chemical fertilizers, paper and some other goods.¹⁷⁹ A three-year agreement with Italy signed in December 1961 provides for a 50 per cent increase in trade turnover in 1962 (to \$8 million), Italy supplying equipment of various kinds against Albanian deliveries of chrome and iron ores, crude petroleum, cotton and tobacco.

The targets for 1980 in Czechoslovakia and Poland

Following the publication of the twenty-year development plan for the Soviet Union, discussed in section 6, it was announced that proposals on the development of the Czechoslovak economy over the same

¹⁷⁷ For example, according to *Zeri i popullit*, 30 December 1961, "During the 1960/61 academic year, 1,123 Albanian students took study courses in the Soviet Union... the Soviet Union paid 60 per cent of the scholarships and the Albanian Government 40 per cent."

¹⁷⁸ *Zeri i popullit*, 8 November and 10 December 1961.

¹⁷⁹ The Canadian Ministry of Agriculture is reported to have stated that mainland China had already shipped 60,000 tons of Canadian wheat (bought under the Sino-Canadian 1961-1963 agreement) to Albania in the second quarter of 1961 (*Le Monde*, 5 October 1961). Apparently some trade with CMEA countries will also continue, since *Zeri i popullit* of 24 January 1962 reported the arrival of a Czechoslovak delegation in Tirana to negotiate a trade protocol for 1962. A trade agreement with Poland is also reported to have been negotiated and one with eastern Germany to be under negotiation at the time of writing.

TABLE 23

Some long-term development targets in Czechoslovakia

	1960	1965	1970	1980
	<i>Index numbers, 1960 = 100</i>			
National income produced	100	142	..	ca. 400
Global output of:				
Industry	100	156	..	ca. 500
Agriculture	100	128	150	ca. 200
Output per man in:				
Industry	100	143	..	ca. 600
Agriculture	100	150	192	..
Gross investment outlays	100	149	..	ca. 400
Foreign trade turnover	100	148	222	ca. 500 ^a
Output of:				
Crude steel	6.8	10.6	14-15	17-19 ^b
Rolled products	4.5	7.3	11	13.6 ^b
				<i>Billion kWh</i>
Electric power	24.5	39.0	100 ^b	170
Freight transport:				<i>Billion ton-km</i>
By rail	47.4	59.3	..	115
By road	5.1	8.3	..	30
By water	2.0	2.9	..	6.7

Sources: *Rudé Právo*, 21 November 1961; *Der Aussenhandel*, Nos. 4-5, 1961; *Elektrotechnický Obzor*, No. 10, 1961 and No. 1, 1962; *Energetika*, No. 11, 1961; *Politická Ekonomie*, No. 8, 1961; *Statistický Obzor*, No. 7, 1961, Annex; *Hospodářské Noviny*, No. 23, 1961, p. 4; *Zahraněční Obchod*, No. 9, 1961; *Informační Bulletin*, No. 82, 1961 and No. 5, 1962 and, for 1965 targets, *Sbirka Zákonů ČSSR*, 25 November 1960.

^a Ca. 330 in 1975.

^b 1975.

period would be presented to the Twelfth Congress of the Communist Party in October 1962. A number of targets for dates up to 1980 have already been announced, and are summarized in Table 23.

These imply that global output of industry will rise over the next twenty years by 8 per cent a year and agricultural output by 3-4 per cent. Employment in agriculture is—not surprisingly—expected to fall (from 1.46 million in 1960 to 1.13 million in 1970); and industrial employment is also apparently expected to fall over the twenty years to 1980. The total working-age population is expected to rise by 13 per cent from 1960 to 1980 while total employment in the national economy increases from 6 millions to 7 millions. Nevertheless, it has been stated that reductions in working hours will require an increase of output per man-hour (apparently in the productive sectors of the economy) by 400-500 per cent if the 1980 output targets are to be met.¹⁸⁰

¹⁸⁰ See *Hutnické Listy*, No. 11, 1961, p. 761; and *Rudé Právo*, 12 December 1961.

In Poland some very tentative objectives — or possibilities — for 1980 have been stated.¹⁸¹

	1980 Index number 1960 = 100
Net national income	420
Global output of: industry	550
agriculture	200
Output per man in industry	450
Gross investment	500
Consumption per head	290

¹⁸¹ See K. Secomski, *Nowa Kultura*, No. 1, 1962.

6. THE TWENTY-YEAR ECONOMIC DEVELOPMENT PROGRAMME OF THE SOVIET UNION

The expansion of national income and inputs of labour and capital

The twenty-year Programme "for the building of a communist society" adopted at the XXII Congress of the Soviet Communist Party in October 1961 sets as its major economic goals the quintupling of national income (net material product) between 1960 and 1980 and the raising of average per capita consumption to

They imply increases of global output in industry and agricultural at rates very similar to those foreseen in Czechoslovakia; and the aim for agriculture is stated in terms of a level of per capita output 15 per cent above that of pre-war Germany. It is stressed that the plan must aim to ensure a steady rise of consumption over the period, by about 5 per cent a year, not only because this is a desirable aim in itself but as a condition of securing the desired growth of labour productivity. The difficulty of expanding foreign trade sufficiently fast is seen as the main threat to the realization of such a plan.

some 3½-4 times the 1960 level. This will represent, the Programme envisages, "the achievement of a living standard higher than that of any of the capitalist countries".

As can be seen from the figures in Table 24, these aims imply a continuing rapid rate of overall economic expansion, though the rates of increase both of national income and of global industrial output will

TABLE 24

Some main indicators of developments under the Soviet 20-year programme

Based on data at constant prices

	1970 Index numbers, 1960 = 100	1980 Index numbers, 1960 = 100	1951-1960 actual	1959-1965 Compound annual percentage rates of growth	1961-1970 Compound annual percentage rates of growth	1971-1980 Compound annual percentage rates of growth	1961-1980 Compound annual percentage rates of growth
National income (net material product)	250	490-510	10.3	7.2-7.4	9.6	7.0-7.4	8.3-8.5
Global output:							
Industry ^a	263	626-645	11.5	ca. 8.6	10.1	9.1-9.4	9.6-9.8
Agriculture ^b	250	350	4.9	ca. 7.8	9.6	3.4	6.5
Global output per man:							
Industry	>200	400-450	7.4	5.5-6.0	7.2	7.2-8.4	7.2-7.8
Agriculture	250	500-600	ca. 6 ^c	9-9.5 ^c	9.6	7.2-9.2	8.4-9.4
Employment (derived):							
Industry	132	139-161	3.8	2.5-3.0	2.8	0.5-2.0	1.7-2.4
Agriculture	—	58-70	ca. -1	ca. -1	—	-3.5-5.3	-1.8-2.7
Stock of productive fixed assets ^d	..	500	9.5	..	..	..	8.4
Freight transport	..	350	10.3	5.1	..	..	6.5
Foreign trade turnover	..	400	12.6	6-10.5 ^e	..	..	7.2
Retail sales (state and co-operative)	250	500	11.3	6.4	9.6	7.2	8.4
Real income per capita : ^f							
Workers and employees	<200	300-350	5.3	4.9	<7.2	4.1-5.8	5.6-6.5
Collective farmers	>200	>400	6.8	4.9	>7.2	>7.2	>7.2

Sources: SURVEY for 1959, Chapter III; *Programma kommunisticheskoy partii Sovetskogo Soyuz* and Report by N. Khrushchev to the XXII Party Congress, *Pravda*, 18 and 19 October and 2 November 1961; *Planovoe khozyaistvo*, No. 11, 1961, p. 51; and for the foreign trade target, *Pravda*, 22 October 1961.

^a At ex-enterprise prices of 1 July 1955.

^b At 1958 prices.

	1951-1960	1959-1965
Collective farms	6.3	10.4
State farms	5.1	6.5-7.0

^d Undepreciated values at comparable prices.

^e The lower figure was written into the plan but covers trade with socialist countries only; the higher figure (in terms of a doubling of total turnover during the period) was stated, as an aspiration, by the Minister for Foreign Trade (*Pravda*, 18 February 1959); on the apparent existence of a still lower goal, see section 3 (c).

Including expenditures from the social fund. The targets for workers and employees are those given in the project for the programme but not in the final text, which stated, however, that the predicted rise of more than 250 per cent in average real "personal" income per capita from 1960 to 1980 would include a faster rise for collective farmers than for workers and employees. It is not clear whether the programme data cover income in kind from the private plots of collective farmers.

continue to fall. From 1928 to 1940 the reported annual rise of net material product was 14.6 per cent; in the fifties it was 10.3 per cent and in the two following decades it is expected to fall first to 9.6 per cent and then to 7-7.4 per cent. However, the Programme also implies either that the targets of the Seven-year Plan (1959-1965) have been revised upwards or — less probably — that a striking, but short-lived, acceleration of the expansion is expected in the second half of the current decade. A revolutionary change in the current trend of farm output, to a rate of increase never achieved in any country over a comparable period, will be needed to reach the 1970 target for that sector; but a return to a more normal rate of progress is expected thereafter. The Programme counts upon a very rapid growth of labour productivity throughout the twenty years, both in industry and in agriculture,¹⁸² and upon a considerable rise in industrial employment in the first decade though not in the second.¹⁸³

From 1960 to 1980 the working population is expected to rise by 40 per cent (1.7 per cent a year compared with an estimated 1.9 per cent during the fifties), but employment in the non-productive sectors is to be nearly tripled to provide for the rapid increase planned in consumption of services (see below). During the first decade, non-farm occupations are expected to absorb the whole of the natural increase of the population of working age, employment in agriculture remaining constant; and during this period industrial employment is to rise by 32 per cent. Between 1970 and 1980, however, about 10 million workers are expected to move out of agriculture, reducing employment in that sector by 30-40 per cent, yet industrial employment is planned to rise more slowly than before — by 7-20 per cent over the ten years. It seems, indeed, that total employment in the "productive" sphere may actually decline during the second decade.

These rather surprising employment trends are only partially explained by demographic expectations (end-year figures in millions):¹⁸⁴

	1960	1970	1980
Total	216	248	274
Urban	107	137	187
Rural	109	111	87

Source : *Sovetskaya torgovlya*, No. 12, 1961, p. 5.

¹⁸² And also in construction — to 4 times the 1960 level by 1980.

¹⁸³ An upward revision of the planned 1965 level of employment in the state sector has already been announced (see section 2).

¹⁸⁴ The implied rates of growth of the total population, which have been derived from *per capita* trade data — 1.4 per cent a year in the first decade and 1.1 per cent in the second — are below the ECE secretariat's projections (see the SURVEY for 1960, Chapter II, p. 34). The latter assumed a further decline in age-

A considerable part of the 40 per cent increase in the working population is expected to be provided by a rise in the overall activity rate, since the coefficient of labour utilization (the share of the working population, including students, in total labour reserves) is to increase from 77 per cent in 1960 to 90-95 per cent in 1980.¹⁸⁵ This is to be achieved through the "lightening of household duties and the liquidation of individual farming plots" permitting the recruitment of 5-6 million persons hitherto classified as unpaid family helpers (on individual plots) or dependants.

The reduction of working hours is to continue. The average working-week of 40.2 hours in 1960 is to be reduced to 39.6 hours in 1962 and 34.5 hours in 1968, and further (unspecified) reductions are predicted in the second decade. The minimum annual paid holiday will be raised from the present fortnight, initially to three weeks and later to a month,¹⁸⁶ the right to holidays with pay being gradually extended to collective farmers. According to estimates by E. Lokshin,¹⁸⁷ aggregate annual working hours (presumably in the productive sector outside collective farms) will decrease by 14-15 per cent over the 20-year period.

Thus the very large planned increases in annual output per worker employed, shown in Table 24, will require even greater increases in output per man/hour.¹⁸⁸ These are to be achieved by, *inter alia*, a large increase in the capital stock per worker as a result of a quintupling of the productive capital stock in 20 years. But the average capital/output ratio in the productive sectors in 1980 is expected to be identical with that of 1960, though it is apparently to increase temporarily under the Seven-year Plan (see Table 24). Returns to labour and capital combined are thus expected to rise very considerably over the period.

No precise data on the phasing or composition of total investment outlays during the period have been published. According to the Report of the First Secretary of the Communist Party on the Pro-

specific mortality rates and the maintenance of the general fertility rate, yielding percentage annual rates of population growth of 1.7 during 1959-1969 and 1.6 over the subsequent five years. Thus Soviet demographers appear to expect declines in fertility rates over the next 20 years, doubtless associated with the accelerated urbanization predicted in the second decade, rising living standards and a further increase in activity rates among women (see below).

¹⁸⁵ Calculations of the Manpower Division of Gosstatizdat, *Ekonomicheskaya gazeta*, No. 20 (18 December 1961), p. 15.

¹⁸⁶ The average is already three weeks, 34 per cent of wage-earners enjoying more than the average and 43 per cent only the minimum.

¹⁸⁷ *Ekonomicheskaya gazeta*, No. 16 (20 November), 1961.

¹⁸⁸ As estimated by A. Notkin (*Voprosy ekonomiki*, No. 11, 1961, p. 21) at a rate of 10 per cent a year in industry alone.

gramme,¹⁸⁹ state investment during the 20-year period will aggregate 2,000 billion roubles. According to a First Deputy Chairman of the Council of Ministers, "in the past ten years gross capital formation amounted to 229 billion roubles . . . and in the next ten years nearly three times as much will be invested."¹⁹⁰ These latter figures do not seem to be comparable with the 2,000 billion roubles of state investment over the period since it is clear from a recent publication by the USSR Central Statistical Administration¹⁹¹ that the 229 billion roubles represents *total* fixed investment outlays. However, the statement just quoted lends support to the impression that the share of fixed investment in national income is to rise slightly, at least during the first decade of the Programme :

	Annual averages in billions of roubles	
	1951-1960	1961-1970
1. Total fixed investment outlays . . .	22.9	ca. 68
2. National income	92.8	ca. 257 ^a
1 as percentage of 2	24½	26½

Sources for line 2 : *Planovoe khozyaistvo SSSR v 1960 godu* and *Planovoe khozyaistvo*, No. 12, 1961.

^a Average of 1960 and 1970.

If the 2,000 billion roubles of state fixed investment during the twenty years is comparable with the 190.6 billion roubles of such outlays reported, in the statistical yearbook, for the decade 1951-1960, the share of state investment in national income would rise from about 23 per cent in the fifties to nearly 25 per cent during 1960-1980, assuming a steady growth of national income over the period.

Apparently investment in stocks will rise faster than fixed investment in the early years since — as observed in section 1 — the present inventory/output ratio constitutes a brake on production ; but the rate of stock accumulation will level off later and will not tend to raise the 1980 ratio of accumulation to national income by comparison with that of 1960.¹⁹²

Statements on investment in particular sectors suggest that a higher share of total outlays than in the past may go to transport, as the Programme requires "the whole country to be covered with a network of well-built motorways, the main internal waterways to be incorporated in a single deep-water system" and that pipe-line transport should be enormously developed.¹⁹³ It seems that investment in agri-

culture will also rise faster than the total : according to the Report, "in technical equipment and organization of production, socialist agriculture will approach the level of industry" and the equipment of collective farms is to be brought up to the level of the state farms — the latter statement implying a faster rise in investment in collective farms than in state farms. Housing will apparently not increase its share in the total, since the Report states that the housing stock is to be tripled, while that of productive fixed assets is quintupled ; on the other hand, it has been suggested¹⁹⁴ that the share of total non-productive investment in national income will rise, which implies an extremely large increase in sectors other than housing. These indications — vague as they are — suggest that the share of industry in total fixed investment will be lower during the 20-year period than in the recent past and that the industrial capital stock will rise less fast than the total stock of productive fixed assets. If so, the average capital/output ratio in industry must be expected to fall over the period, within the changes for the productive sector as a whole indicated below :

	1960 (1950 = 100)	1960 (1955 = 100)	1965 (1958 = 100)	1980 (1960 = 100)
Stock of productive fixed assets	245	157	232	500
National income	267	156	162-165	500

Sources : As for Table 1 and, for fixed assets in 1965, P. Litvyakov and N. Tyapkin, *Obshchestvenny trud i ego proizvoditelnost*, 1961, p. 23.

The factors tending to bring about a rise in the productive capital/output ratio during the period of the Seven-year Plan were reviewed in the SURVEY for 1959.¹⁹⁵ The expectation of its return to the 1960 proportion over the subsequent fifteen years doubtless reflects, in part, simply the difficulty of estimating such a ratio twenty years ahead ; but it is also supported by a number of changes in both the composition of investment and the degree of capacity utilization planned for this period.

First, it has been suggested that the share of equipment in fixed capital formation will rise from 31 per cent in 1960 to an average of 55-60 per cent during the 20-year period.¹⁹⁶ Secondly, the number of shifts worked is apparently to be increased in many branches of industry, thus not only raising the productivity of capital in those branches but also, for example, more than offsetting the tendency towards reduced utilization of electricity generating capacity which might

¹⁸⁹ Hereafter referred to as the Report. It was published in *Pravda*, 18-19 October 1961, and the Programme as adopted was published in the issue of 2 November.

¹⁹⁰ A. Kosygin, *Izvestia*, 24 October 1961.

¹⁹¹ *Kapitalnoe stroitelstvo v SSSR*, 1961.

¹⁹² See A. Notkin, *op. cit.*, p. 24.

¹⁹³ The total length of gas pipe-lines is to increase from 23,500 kilometres at the end of 1961 (17,300 at the end of 1960) by 150,000-170,000 kilometres (*Ekonomicheskaya gazeta*, No. 17 (27 November), 1961).

¹⁹⁴ A. Notkin, *Planovoe khozyaistvo*, No. 12, 1961, p. 24. His earlier statement (p. 23) that the share of productive investment in total accumulation over the period will be unchanged as compared with the recent past provides further evidence that the share of total accumulation in national income is expected to rise.

¹⁹⁵ Chapter III, pp. 17-21.

¹⁹⁶ T. Khachaturov, *Voprosy ekonomiki*, No. 9, 1961, p. 13.

TABLE 25
Indicators of industrial expansion under the Soviet 20-year programme
Quantities, values at 1 July 1955 prices, rates of growth and index numbers

Branch or commodity	Unit	Value or quantity					Compound annual percentage rates of growth				
		1960	1965	1970	1980	1951-1960	1959-1965	1961-1970	1971-1980	1961-1980	
All industry (global output)	<i>Index 1960 = 100</i>	100	c. 234	263	626-645	11.5	ca. 8.6	10.2	9.1-9.4	9.6-9.8	
Producers' goods (group A)		100	164	273	686-704	12.6	9.3	10.6	9.7-9.9	10.1-10.3	
Consumers' goods (group B) ^a		100	71	242	500-520	10.4	7.3	9.2	7.5-8.0	8.4-8.6	
Electric power — capacity	<i>Thousand MW</i>	66.7	^b	190-220	540-604	..	..	11.0-12.7	11.0-10.6	8.8-9.4	
Electric power — output	<i>Million MWh</i>	292	500-520 ^c	900-1000	2700-3000	12.4	11.2-11.9	11.9-13.1	11.6	11.8-12.4	
All fuels (7,000 M.cal. equivalent)	<i>Million tons</i>	693	1071 ^d	..	2772	8.4	7.4 ^d	..	..	7.2	
of which:											
Crude petroleum		148	>240 ^e	390	690-710	14.5	ca. 12 ^f	10.2	5.9-6.2	8.0-8.2	
Natural gas	<i>Billion cu.m.</i>	47	150	310-325	680-720	22.9	29.5	20.8-21.3	8.2-8.3	14.3-14.6	
Coal	<i>Million tons</i>	513	600-612	686-700	1180-1200	7.0	1.8-2.1	2.9-3.2	5.5-5.6	4.3-4.4	
Crude steel		65	95-97 ^e	145	250 ^g	9.2	ca. 8.5 ^f	8.3	5.7	7.0 ^h	
Cement	<i>Billion tons</i>	46	84 ^e	122	233-235	16.5	14.5 ^f	10.2	6.7-6.8	8.4-8.5	
Chemicals branch	<i>Index 1960 = 100</i>	100	..	..	1700	14.9	max. 17	..	..	15.2	
of which:											
Mineral fertilizers (crude weight)	<i>Million tons</i>	14	35	77	125-135	9.7	9.0	18.6	5.0-5.8	11.6-12.0	
Resins and plastics	<i>Thousand tons</i>	332	..	5300	19 000-21 000	..	32.0	31.9	13.6-14.7	22.4-23.0	
Artificial and synthetic fibres		211	666	1350	3100-3300	24.3	21.9	20.4	8.7-9.3	14.4-14.7	
Engineering and metal-working branch	<i>Index 1960 = 100</i>	100	..	338	982-1102	15.6	min. 8.3	13.0	11.3-12.5	12.1-12.7	
Consumers' durable goods	<i>Billion roubles</i>	5.9	..	18	58-60	..	10.4	11.8	12.4-12.8	12.1-12.3	
Textile fabrics	<i>Billion sq.m.</i>	6.6	..	13.6	20-22	6.2	..	7.5	3.9-4.9	5.7-6.2	
Leather footwear	<i>Million pairs</i>	419	515	825	900-1000	7.5	5.5	7.0	0.9-1.9	3.9-4.5	

Sources: Programme and Report; *Narodnoe khozyaistvo SSSR v 1960 godu*; *Planovoe khozyaistvo*, No. 12, 1961, p. 88. For the original targets of the 1959-1965 plan see the SURVEY for 1959, Chapter III, Tables 15-21.

^a Values include turnover tax on materials used in production but not tax on the final goods.

^b In the debate on the 1961 plan in the Supreme Soviet the Minister of Power Station Construction stated that proposals had been "submitted to the Government . . . for installing 68,000 MW instead of 60,000 MW during the Seven-year Plan" (*Izvestiya*, 24 December 1960). It is not certain that these proposals were accepted, but it seems likely.

^c Original target (see footnote b).

^d Original target for all primary energy including hydro-power (see the SURVEY for 1959, Chapter III, Table 16).

^e Revised target. Original targets were for crude petroleum 230-240, for steel 86-91, for cement 75-81.

^f Based on revised 1965 targets (see footnote e).

^g Capacity.

^h Assuming full-capacity operation in 1960.

otherwise follow the reduction of working hours.¹⁹⁷ Indeed, it is hoped to increase the average plant utilization period in electric-power generation from 4,384 hours in 1960 to 5,000 hours in 1980 and to reduce both the investment cost per kilowatt and the current cost per kilowatt-hour generated by 60 per cent between 1960 and 1980¹⁹⁸ — particularly important aims in this context since electricity generation is the most capital-intensive major industry and also a branch in which output is planned to rise at well above the average rate (see below). The possibility of reducing the extent to which machines stand idle even during a shift has also been stressed.¹⁹⁹ Thirdly, the present attempts to lessen the dispersion of investment resources over a multitude of projects and thus to speed up completions is expected to produce continuing, as well as immediate, benefits.²⁰⁰ Fourthly, it seems that chemicals and engineering — two of the relatively less capital-intensive of the major branches of industry — are to show the highest rates of expansion over the period and that these will accelerate from the first to the second decade (see Table 25 below).²⁰¹ In such highly capital-intensive branches as electricity generation, metallurgy and fuels, on the other hand, planned rates of growth of output are lower and/or declining from the first to the second decade. Moreover, within the fuel sector, the continuing change in the pattern of production away from coal and towards petroleum and, *a fortiori*, natural gas should reduce the sectoral capital/output ratio.

The above factors are apparently expected to offset the effect on the overall productive capital/output ratio of a number of unfavourable developments. The declining rate of growth of the industrial labour force and the reduction in working hours have already been mentioned. The planned increase in capital intensity in agriculture is striking — global output rising to 3½ times the 1960 level by 1980 while the sector's capital stock is apparently to be more than quintupled, and this in conditions of declining farm employment. Similarly the above-average rise in investment in transport, mentioned above, must be expected to produce a below-average direct return in terms of growth of "productive services" — since freight transport is planned to reach only 3½ times the 1960 volume (see Table 24). However, the economy

of transport investment is in itself a favourable factor, in this context, to be realized by the location of new engineering plants in the eastern regions, the progressive substitution of grid-transmission of electricity for coal haulage, and the creation of basic material centres in the areas of main consumption of those materials.²⁰²

The pattern of industrial expansion

The major industrial targets of the programme are shown in Table 25. The gap between rates of expansion in the consumers' goods and producers' goods branches will narrow somewhat in the first decade and then widen again; but over the twenty years as a whole it will be about the same as during the fifties, though much less than during the period 1928-1940. However, within the producer-goods sector, output of products for use in the light and food industries, agriculture, housing and services is planned to reach 13 times the 1960 level by 1980 whereas production of materials and equipment for heavy industry is to reach 6 times the 1960 level.²⁰³

The electrification programme is tremendous. The building of 180 hydro-power plants and 200 thermal stations during the 20 years²⁰⁴ is to raise generating capacity to 5½-6 times that of 1960 and output to 9-10 times that level. As the figures in Table 26 show, plant utilization in the Soviet Union is already above that in western Europe, though not higher than in Poland. As mentioned above, the belief that it can be raised still further — to 5,000 hours by 1980 — appears to be based in part on the assumption of economies arising from increased shift-working in industry, which will absorb an even higher share of electric power generated in 1980 than in 1960 despite the spread of electrification in other fields:

	Index numbers 1980 (1960 = 100)
Global industrial output	620-640
Labour productivity in industry	400-450
Employment (derived)	155-142
Electricity per worker	800-900
Industrial use of electricity (derived)	1,240-1,280
Total use of electricity	920-1,030

Source : *Planovoe khozyaistvo*, No. 12, 1961, pp. 85, 87 and 88.

The 1959 data below suggest that there is considerable scope for raising the efficiency of utilization of power capacity by evening out the incidence of shift working, as well as by raising the average, even

¹⁹⁷ According to Mr. A. Kosygin, "There are great reserves in engineering — the coefficient of the shift operation of equipment in the majority of engineering plants does not exceed 1.4 to 1.5." (*op. cit.*)

¹⁹⁸ A. Beschinsky, *Voprosy ekonomiki*, No. 11, 1961, p. 41.

¹⁹⁹ See Kosygin, *op. cit.*

²⁰⁰ See sections 3 and 4.

²⁰¹ These are the only two branches for which rates of growth are specified in the Programme, but the growth rates stated for individual products of other branches support the deduction that chemicals and engineering are to lead the expansion.

²⁰² For example, energy-intensive industries are to be established in Siberia and Kazakhstan based on local resources of cheap coal and hydro-power.

²⁰³ See also section 5, p. 43.

²⁰⁴ Plus a further 260 composite plants generating power and district heating.

TABLE 26

Utilization of capacity in electric power generation in five countries in 1960

Country	Installed capacity MW			Production Thousand MWh			Plant utilization period Hours		
	Thermal	Hydro	Total	Thermal	Hydro	Total	Thermal	Hydro	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(4)÷(1) (7)	(5)÷(2) (8)	(6)÷(3) (9)
United Kingdom . . .	33 384	1 166	34 550	126 423	3 123	129 546	3 787	2 678	3 749
Western Germany . . .	22 450	3 300	25 750	96 109	12 817	108 926	4 281	3 883	4 230
France	10 340	9 800	20 140	31 800	40 550	72 350	3 075	4 137	3 592
Poland	5 024	258	5 282	26 195	653	26 848	5 213	2 531	5 082
Soviet Union	51 921	14 779	66 700	241 565	50 886	292 451	4 652	3 443	4 384

Source : Direct communications by the five governments.

NOTE. — Thermal includes nuclear power. Soviet production data include consumption by power stations.

though the use of electricity per thousand roubles of output is relatively low in at least two of the branches with a low average incidence of shift-working (engineering and oil-refining :

	Shifts worked per working place	Electricity consumption		Employment (percentage)
		roubles per 1000 roubles of output	percentage of industrial total	
Ferrous metallurgy . .	1.81	..	17.7	5.1
Non-ferrous metallurgy	1.68	..		..
Coal	2.37	35.4	7.4	6.4
Oil extraction	1.49	59.1	2.4	0.8
Oil refining	1.54	37.9	6.8	
Engineering	1.39	39.7 ^a	16.2	30.8
Chemicals and rubber .	1.62	72.9 ^b	11.3	..
Paper	1.67	47.7	2.3	..
Building materials . .	1.61	52.9	12.0	7.0
Textiles	2.01	..	6.0	15.4 ^c
Food processing	1.32	..	6.0	10.1
All industry	1.55	..	100.0	100.0

Sources : Narodnoe khozyaistvo SSSR v 1960 godu, pp. 104-147, 217, and 646.

^a Metal- and wood-working machine tools.

^b Average of basic chemicals and synthetic rubber.

^c Including clothing and leather.

The spread of automation — making round-the-clock working easier — and increased consumption by such off-peak users as the railways and domestic consumers should also help to raise plant utilization, and the planned completion of a single grid system for the whole country by 1980 should help to even out any regional differences in load factors. The benefits of a single grid can be particularly great in a country as large as the Soviet Union, where differences of longitude automatically “stagger” working hours. On the other hand, the share of hydro-power in the total is apparently to rise above its 22 per cent in 1960,²⁰⁵ and few of the major new schemes are in

mountain regions where high reservoir heads can facilitate intensive utilization of generators. However, the linking of the northern rivers to the Volga should increase the flow of water to the stations on the latter river.

In the fuels sector, the continuing change in the pattern of output, towards major reliance on petroleum and natural gas, is indicated by the following figures :

	1940	1960	1980
Coal	59.1	53.9	30
Petroleum	18.7	30.5	37
Natural gas	1.9	7.9	31
Other	20.3	7.7	2
Total (standard fuel equivalent)	100	100	100

Sources : Narodnoe khozyaistvo SSSR v 1960 godu, p. 253; Planovoe khozyaistvo, No. 12, 1961, p. 89.

However, output of “other fuels” — peat, shale and firewood — is to remain practically unchanged from 1960 to 1980.²⁰⁶ No contribution from nuclear energy is included in the above figures (or apparently in those in Table 25) although the Programme mentions the development of nuclear power and the siting of plants “particularly in areas with inadequate supplies of other sources of energy” and the Seven-year Plan seems to have provided for the generation of 25 million kWh of nuclear power in 1965.²⁰⁷ It is not clear whether this Programme still stands or whether it has been cut back in the expectation that — with present techniques — nuclear power is likely to be more costly per kWh than other fuels. The acceleration of coal output in 1970-1980, contrary to the longer-term trend (see Table 25), probably reflects plans for increased

²⁰⁶ The data imply that it is to rise from 54 million to 56 million tons of standard fuel equivalent.

²⁰⁷ See the SURVEY for 1959, Chapter III, Table 17 and Appendix B, p. 6.

²⁰⁵ Judging from the relative capacities of the new thermal and hydro stations mentioned in the Programme and the Report.

open-cast working in the eastern regions accompanied by nearby construction of thermal power stations.

Within the metallurgical and metal-using branches some 1965 targets have been revised upwards during 1961, as the Report shows :

	Unit	1965	
		Original plan	Revised plan
Pig iron	Million tons	65-70	72-73
Steel		86-91	95-97
Rolled products		65-70	73-74
Engineering and metal-work- ing (global output)	Billion roubles	49	56-57
Metal-cutting machine tools .	Thousands	190-200	270

In the engineering branch, 2,800 new plants are to be established during the twenty years, mainly in the eastern regions, and 1,900 are to be re-equipped to provide for the high degree of mechanization foreseen in all sectors and large-scale extension of automation. According to the Report, the very high target for crude steel capacity in 1980 (250 million tons) is geared to the needs of the metal-using branches. It is hoped that non-ferrous metals and plastics will increasingly replace steel in a wide range of its present uses ; but it may nevertheless be supposed that the needs of some large users (for example the railways) will be very heavy during the 20-year period. In the chemicals branch, which will lead the industrial expansion, output of plastics and synthetic and artificial fibres is to rise particularly fast, with output of mineral fertilizers also rising faster than the industrial average to provide for a very large increase in the rate of application (see below).

In the consumer-goods branches, output of durable goods is to rise over the period faster than the industrial average and at an accelerating rate. Rates of

growth of output of textiles and footwear, in terms of quantity, will fall in the second decade, but it may reasonably be supposed that quality improvements will continue.

The development of agriculture

The agricultural output targets set for 1970 represent annual rates of expansion over the preceding decade still higher than those called for under the Seven-year Plan (9.6 per cent and 7.8 per cent respectively), despite the fact that the latter have not as yet even been approached since, during the last three years, the annual rate of growth has been about 1 per cent. During the sixties, however, industrial and agricultural output are planned to increase at virtually the same rate (see Table 24) — a complete transformation of the past pattern of development of the Soviet economy.

The raising of the 1958-1965 growth rates applies not only to the plan for global agricultural output but also to the targets for all the individual products shown in Table 27, with the exception of meat (the same as under the Seven-year Plan) and potatoes and sugar-beet (lower). The lowering of the target for potatoes presumably reflects the hope of raising the quality of the diet faster than was originally foreseen and an intention to lessen reliance on so labour-intensive a crop for animal fodder. The similar change affecting sugar-beet grown for sugar may reflect intentions to raise sugar imports (as is now happening) and to use a larger share of domestic beet production as feed.

The plan for fertilizer production in 1980 and estimates of the rate of application per hectare which this will permit (see below) suggest that it is hoped to raise the sown area to 250-270 million hectares in

TABLE 27
The agricultural production targets of the Soviet 20-year programme

Commodity	1960	1965	1970	1980	Index numbers		
					1970	1980	1980
					(1960 = 100)	(1970 = 100)	(1960 = 100)
			Million tons				
Grain	134.4	163-180	229	294-310	171	129-136	220-232
Unginned cotton (purchases)	4.3	5.7-6.1	8	10-11	186	125-138	233-256
Sugar-beet (for sugar)	57.7	76-84	86	98-108	149	114-126	170-187
Oil seeds	4.3	5.5	8	9-10	186	113-125	209-233
Potatoes	84.4	147	140	156	166	111	185
Vegetables and melons	19.2	..	47	55	245	117	286
Fruit	4.9	ca. 14	28	51	571	182	1040
Meat (slaughter weight)	8.7	16	25	30-32	287	120-128	344-368
Milk	61.7	100-105	135	170-180	219	126-133	276-292
Eggs (billions)	27.4	27	68	110-116	248	162-171	400-423
Wool (thousand tons)	357	548	800	1045-1155	224	131-144	293-324

1980. This would imply an even greater extension than was undertaken between 1950 and 1960 (from 146 million to 203 million hectares); but it is presumably to be achieved in part by reducing the area lying fallow.²⁰⁸

Grain yields per hectare are to be raised from 11 quintals in 1960 to 20 quintals, or rather below the present French average.²⁰⁹ This is to be achieved by, *inter alia*, an extension of irrigation from the present 9 million hectares to 28 million, large-scale land melioration and an enormous increase in the use of fertilizer. It is estimated that the planned rise in production of chemical fertilizer shown in Table 25 will permit an increase in application in crude terms from 68 kilogrammes to 500 kilogrammes per hectare,²¹⁰ corresponding to a change from 16 kilogrammes to 120 kilogrammes in terms of pure content if the composition remains unchanged.²¹¹ If the composition should be improved by raising the share of nitrogenous fertilizer, the proportionate rise in terms of pure content might be somewhat smaller; but the planned 1980 rate of application could, even then, be comparable with the present average level in the relatively intensive agriculture of the countries of the European Economic Community, or three times today's rate in the United States. Application of natural manure should also rise as a result of the planned increases in livestock numbers mentioned below. Mechanization of agriculture is clearly to be greatly increased and rural electrification is to be completed, though no precise data for periods later than the 1959-1965 plan have been published.²¹²

In the livestock sector, which will also benefit from the planned mechanization and investment in farm buildings, the main contribution to higher output is expected to come from increased numbers:

²⁰⁸ The land lying fallow in 1960 can be estimated at some 16-17 million hectares. A considerable part (47-48 million hectares) of the sown area was under low-yielding grasses and oats and it is hoped also to replace much of this by higher-yielding crops by 1980 (see also section 2).

²⁰⁹ Average yields of all grains in France during 1957-1959 were 22.3 quintals per hectare and in Canada — under very labour-extensive farming — the average was 13.1 quintals (*FAO Production Yearbook*, 1960, pp. 52 and 60).

²¹⁰ *Ekonomicheskaya gazeta* No. 2 (8 January), 1962.

²¹¹ This calculation is based on the conversion factors indicated in *Narodnoe khozyaistvo SSSR v 1960 godu*, p. 23 (nitrogenous fertilizer in terms of sulphate of ammonia, 21 per cent N; phosphorous fertilizer, 19 per cent P₂O₅ content; potash fertilizer, 41.6 per cent K₂O content) and on the fertilizer composition in recent years as shown in *Selskoe khozyaistvo SSSR*, 1960, p. 20.

²¹² The Central Committee of the Communist Party called at its January 1961 session for additional investment in agriculture and ancillary industries (fertilizers, building materials and farm machinery) to "make up time lost and achieve incomparably greater rates of growth in the remaining five years" of the 1959-1965 plan. Subsequently investment allocations for rural electrification during 1961-1965 were raised "substantially" (*Pravda*, 20 January and 23 February 1961).

	1960	1965	1980	1980 as percentage of 1960
	Millions			
Cattle	74.2	109	153-163	206-220
of which: Cows	33.9	49	68-75	200-221
Pigs	53.4	64	91	170
Sheep	136.1	189	270	199

Sources: Programme; *Narodnoe khozyaistvo SSSR v 1960 godu* and the SURVEY for 1959, Chapter III, Table 26.

These figures and those in Table 27 imply that milk yields will rise from 1,945 kilogrammes per cow in collective and state farms in 1960 to 2,626 kilogrammes in 1980 (about the present average in Norway and in eastern Germany) and the average wool-clip from 2.6 to 4.0 kilogrammes. To raise per capita meat consumption to 2½ times its 1960 level (see Table 28 below) for a 27 per cent larger population will also require considerable increases in yields. The increases in output of grain and potatoes shown in Table 27 are thus readily explicable in terms of the

TABLE 28
Consumption of some basic goods in the Soviet Union
in 1960, 1970 and 1980

Commodity	"Scientific norm" to be reached by:		Percentage increase 1960 to 1970
	1970	1980	
	Kilogrammes		
Meat and meat products (in terms of meat)	86.8	..	150
Fish and fish products	..	16.2	50
Dairy products (milk content)	467	..	100
Vegetable oils and other fats	10	..	100
Eggs (number)	..	365	120
Sugar (including confectionery)	44	..	50
Vegetables and melons	..	164	130
Fruits	..	133	400
	Per capita annual consumption in		Percentage increase 1960 to 1980
	1970	1980	
	Square metres		
All textiles	47.5	65.2	150
of which:			
Cotton	31.3	40.4	110
Wool	4.0	6.0	173
Silk	9.0	10.8	218
Linen	2.5	5.9	352
	Number		
Knitted garments	7.3	9.6	232
	Pairs		
Leather footwear	3.5	3.6	100

Source: *Planovoe khozyaistvo*, No. 11, 1961, pp. 40 and 44.

NOTE. — It seems that the figures for foodstuffs are expressed per adult rather than per capita.

feed requirements of the predicted livestock numbers; and the contribution of fodder crops for which no plan targets have been published will doubtless also have to rise in order to feed the larger herds to a standard which will assure the planned increase in yields.

The 1980 targets for the level and composition of farm output in the Soviet Union seem technically feasible. The doubt remains, however, whether more than two-thirds of the distance towards them can be passed by 1970 — that is to say, in nine years. The problems of Soviet agriculture have recently been exposed by the authorities in considerable detail; but the levels of output of the last three years indicate little effective progress, as yet, towards their solution.

Living standards in 1980

The changes in farm output over the next twenty years are intended to permit the achievement of an "optimum" diet, in terms of nutritional standards, by 1970 or — for eggs, vegetables and fruit and fish — by 1980. The increases implied over 1960 levels of consumption of the higher quality foods are very large (see Table 28) and per capita consumption of bread and potatoes is expected to fall by about 30 per cent. Large increases in consumption of basic consumer-goods, such as textiles and footwear, are also expected; but the consumers' budget is nevertheless expected to undergo the normal change associated with rising living standards towards a larger share of durable goods and services in the total:²¹³

Distribution of household expenditure, net of savings,
at 1960 prices

	1960 Percentage	1980 Percentage	1980 Index number 1960 = 100
Goods	91	79	330
of which :			
Food	49	38	290
Clothing and shoes	20	18	350
Household goods	7	9	550
Other non-foods	15	14	330
Services	9	21	900
Total	100	100	380

Source : *Planovoe khozyaistvo*, No. 1, 1962, pp. 10-11. Clearly, the 1980 figures are based on data including consumption of goods and services paid for by the individual consumer in 1960 but which are intended for free distribution (in whole or in part) in 1980.

It is predicted that 92 per cent of textiles will be bought in the form of ready-made goods by 1980, compared with only 45 per cent in 1960. The stock of consumers' durable goods in private ownership per

²¹³ Other budget studies recently published show a rather different distribution of spending but definitional differences preclude an exact comparison (see N. Rimashevskaya, *Sovetskaya trgovlya*, No. 11, 1961, pp. 21-25, and N. Kirichenko, *ibid.*, No. 4, 1961, pp. 9-13).

family (excluding those available for hire) is expected to increase as follows :

	1960	1970	1980
Radios and radio-gramophones	0.48	0.86	1.27
Television sets	0.10	0.53	1.06
Cameras	0.17	0.43	0.67
Watches	1.48	3.03	4.16
Clocks	1.15	1.77	3.03
Sewing machines	0.35	0.85	0.98
Bicycles, motor-cycles and scooters	0.45	0.63	0.83
Refrigerators	0.04	0.34	0.90

Source : *Ibid.*, No. 11, 1961, p. 44.

Since the targets for consumption of individual commodities reviewed above hardly represent — by themselves — the ingredients of a standard of living 75 per cent above the present United States average (the aim for the consumption sector stated in the Report), it must be supposed that consumption of other goods and, even more, of services is to contribute largely to raising living standards to the target level.²¹⁴

With the disappearance of farmers' private plots, the share of goods for personal consumption passing through the retail trade network (including catering establishments) is expected to rise from just over four-fifths at the present time to about 96 per cent, and this has to be borne in mind when interpreting the increases in trade turnover and the number of retail outlets shown in Table 29. However, they suggest that the margin between turnover and facilities in rural and in urban areas will be narrowed considerably under the Programme.²¹⁵ The extension of public catering is expected to raise the share of foodstuffs supplied by such means from about 19 per cent in 1960 to 53 per cent by 1980.²¹⁶

The Programme lays particular stress on the desirability of raising personal consumption by means of free distribution of services and of some goods. The social consumption fund is expected to reach more than 10 times the 1960 level — 255-265 billion roubles in 1980 — while total per capita income (including benefits from the social consumption fund) rises by 200-250 per cent for workers and employees and by over 300 per cent for collective farmers, implying an

²¹⁴ Private motoring is clearly not expected to reach even the present standards in the richest western countries, the only future provision for this form of consumption stated in the programme being the establishment of a taxi and car-hire fleet of 15 million vehicles (1 per 5 families) by 1980.

²¹⁵ The staffing of retail trade is also to be improved, the number of shop assistants per thousand inhabitants rising as follows:

	1960	1970	1980
Urban areas	4.4	6.6	9.6
Rural areas	3.0	5.4	9.6
Total	3.8	6.1	9.6

Source : *Sovetskaya trgovlya*, No. 12, 1961.

²¹⁶ *Planovoe khozyaistvo*, No. 11, 1961, p. 42.

TABLE 29

Planned changes in retail trade turnover and number of outlets in the Soviet Union, 1960 to 1980

	1960	1970	1980
Retail trade turnover : ^a			
Total (index number)	100	..	500
Per capita (roubles) :			
Urban	555	938	1 448
Rural	161	564	1 241
Number of shops (thousands) :			
Total	413	536	818
Urban	172	236	468
Rural	241	300	350
Turnover of public catering ^b (billion roubles)	9	33	117
Number of catering enterprises ^c (thousands) :			
Total	132	255	500
Urban	98	161	332
Rural	34	94	168

Sources : *Sovetskaya trgovlya*, No. 12, 1961 ; *Planovoe khozyalstvo*, No. 11, 1961.

^a Including public catering (other than in hospitals, rest homes, children's homes, etc.).

^b Including dining rooms in hospitals etc. Figures for 1960 are identical with those shown for 1958 in the statistical yearbook.

^c Excluding dining rooms in hospitals, etc.

aggregate rise of some 400 per cent in view of the expected 40 per cent increase in the working population. Disbursements from the social fund are to provide not only for free education and health services, maintenance grants for school children and students and universal (as well as higher) retirement pensions by 1980, but also for rent-free housing ²¹⁷ and free local transport facilities, as well as for some progress towards free provision of holiday accommodation, sports facilities and meals in enterprises, farms and other institutions. This will contribute to the planned narrowing of disparities of real incomes, by increasing farm incomes faster than those of urban workers as well as by raising the money incomes of the lowest paid workers faster than those in the higher brackets. The per capita real incomes of the lowest-income groups are to be tripled in the first decade.

The standard of housing accommodation to be provided rent free by 1980 has not been precisely stated. According to the Report the average annual volume of construction is planned to rise from 135 million

²¹⁷ Services such as domestic light, heating, cooking facilities and hot water will also be provided free.

square metres during 1961-1965 to 400 million square metres in 1976-1980 and the housing stock will be tripled over the 20 years up to 1980. It seems that these figures must apply to the urban housing stock, and they therefore have to be related to an expected population increase of 80 per cent (see above). They imply that the present average area per person of 9 square metres (in urban areas) in 1960 will rise to 15-16 square metres by 1980.²¹⁸

The stress in the Programme on free distribution of consumers' goods and services is avowedly based on the belief that this constitutes one of the characteristics of a communist society. Free provision of health services, education, school and canteen meals, and even the desirable minimum of housing space — such as is envisaged by 1980 — can be justified in any society as a means of protecting people against their own, or their parents', fecklessness. However, in a society as affluent as the one the Programme is designed to establish, and in which, moreover, the distribution of personal money incomes can be controlled so as to avoid extremes of individual wealth or poverty, the economic or social case for carrying income distribution in kind much further is debatable, since a free choice of the consumption pattern may generally be supposed to optimize consumers' satisfaction.

Foreign trade

Finally, a First Deputy Prime Minister has stated, as a target for the growth of Soviet foreign trade, the quadrupling of the 1960 turnover by 1980. This implies a falling share of trade in national income over the period ; but he has also stressed the importance of taking more advantage of the possibilities offered by international trade to increase the efficiency of Soviet investment and output.²¹⁹ Foreign trade efficiency has long been a subject of intense concern to the planning authorities of eastern Europe, but published discussion of this topic in the Soviet Union has only just begun. If serious attention is now to be directed to it, the result may well be an upward revision of the targets at present set.

²¹⁸ Support for this deduction is offered by the 1980 goal stated for Leningrad — a separate dwelling for each family with 15 square metres of living space per person (*Pravda*, 29 December 1961). Soviet housing statistics normally define living space as including kitchens, bathrooms, and even corridors. Certainly this definition applies to the present average of 10 square metres in Leningrad and 9 in other urban areas of the country as a whole.

²¹⁹ Mr. A. Mikoyan, *Pravda*, 22 October 1961.

STATISTICAL APPENDIX

APPENDIX TABLE A
Total imports into selected western European countries by main commodity groups, January-September 1960 and 1961

Millions of dollars at current prices, c.i.f.

Commodity group and SITC code	Year	Belgium-Luxembourg										Total of countries listed		
		Austria	Denmark ^a	Finland	France	Western Germany	Italy	Netherlands	Norway	Sweden	Switzerland		United Kingdom	
Food, beverages, tobacco	1960	154.4	379.3	202.5	88.4	931.4	1 700.4	533.0	462.9	119.9	237.1	271.2	3 157.6	8 238.1
	1961	123.1	358.6	166.2	87.3	881.9	1 709.3	593.0	471.8	110.6	234.5	291.7	3 082.2	8 110.2
Raw materials	1960	140.1	549.6	94.2	59.9	1 010.6	1 491.9	904.8	369.4	74.1	167.0	125.3	1 605.7	6 592.6
	1961	142.9	562.1	91.4	56.3	987.8	1 481.8	822.4	359.4	113.7	160.4	182.0	1 494.6	6 454.8
Forestry products	1960	18.9	126.0	94.9	7.3	191.0	484.8	283.0	209.0	31.0	41.7	54.1	931.0	2 427.7
	1961	23.7	137.3	95.6	7.4	233.7	537.0	276.3	221.0	42.1	44.8	79.7	938.8	2 637.4
Fuels	1960	95.2	304.1	152.0	73.5	794.3	554.2	493.6	444.8	89.3	289.2	142.3	1 011.7	4 444.2
	1961	98.3	302.5	164.9	73.6	821.9	661.1	509.7	485.5	99.3	287.9	141.2	1 033.2	4 679.1
Chemicals	1960	82.6	189.5	114.2	69.0	221.7	326.8	252.5	219.2	70.3	162.4	151.6	367.0	2 226.8
	1961	86.8	191.9	127.6	73.7	272.5	329.9	268.7	228.8	72.0	161.5	163.5	357.8	2 334.7
Textiles	1960	78.6	113.4	84.5	44.5	59.9	410.9	53.8	179.1	61.5	129.6	71.6	275.3	1 562.7
	1961	83.5	133.4	92.8	50.0	72.6	463.8	58.8	224.1	63.1	132.0	84.7	316.1	1 774.9
Base metals ^b	1960	67.5	274.5	137.0	97.7	495.7	901.8	355.6	326.5	129.1	270.6	178.3	829.0	4 063.3
	1961	81.2	302.3	139.8	108.4	525.6	945.5	454.3	354.5	95.5	234.4	197.9	621.3	4 060.7
Machinery and metal manufactures	1960	212.9	385.1	198.2	196.8	547.1	562.7	397.8	551.0	181.9	383.7	250.1	575.4	4 442.7
	1961	263.6	467.7	226.8	242.2	715.8	789.0	558.2	752.4	206.9	439.3	351.3	738.4	5 751.6
Transport equipment	1960	97.2	265.5	139.7	83.5	179.5	176.3	93.0	238.0	235.5	184.2	141.6	194.2	2 028.2
	1961	101.8	286.7	127.7	89.8	134.8	190.1	137.1	281.8	320.6	178.3	177.4	97.2	2 123.3
Other commodities ^c	1960	81.8	350.0	96.0	47.5	228.6	731.6	182.4	330.4	90.4	215.7	234.0	529.2	3 117.6
	1961	98.2	365.6	111.2	54.4	258.5	904.1	206.7	401.9	101.5	243.8	305.8	603.7	3 655.4
TOTAL IMPORTS	1960	1 029.2	2 937.0	1 313.2	768.1	4 659.8	7 341.4	3 504.5	3 330.3	1 083.0	2 081.2	1 620.1	9 476.1	39 143.9
	1961	1 103.1	3 108.1	1 344.0	843.1	4 905.1	8 011.6	3 885.2	3 781.2	1 225.3	2 116.9	1 975.2	9 283.3	41 582.1

Sources: National trade statistics; OEEC, *Statistical Bulletins* — *Foreign Trade*, Series B; Office statistique des communautés européennes (Brussels), *Statistique mensuelle du commerce extérieur*.

^a General imports, including transit.
^b For 1961 — divisions 67 and 68.
^c For 1960 — including division 67.

APPENDIX TABLE B

Total exports from selected western European countries by main commodity groups, January-September 1960 and 1961

Millions of dollars at current prices, f.o.b.

Commodity group and SITC code	Year	Austria	Belgium-Luxembourg	Denmark	Finland	France	Western Germany	Italy	Netherlands	Norway	Sweden	Switzerland	United Kingdom	Total of countries listed
Food, beverages, tobacco	1960 1961	38.7 42.3	110.4 133.2	606.8 597.6	29.8 27.4	622.5 772.2	161.8 171.7	424.9 430.0	784.1 788.9	102.8 100.2	52.8 56.0	72.2 75.3	394.6 417.8	3 401.4 3 612.6
Raw materials	1960 1961	33.6 36.7	192.0 215.4	65.4 74.4	25.6 23.4	363.4 372.2	214.5 243.9	113.6 128.1	227.2 254.2	72.7 78.4	205.4 217.0	24.0 30.7	262.2 272.7	1 799.6 1 947.1
Forestry products	1960 1961	176.0 177.1	52.1 57.9	17.8 20.1	538.5 613.4	170.7 171.7	108.2 124.5	35.5 31.6	71.3 80.6	136.3 135.8	622.6 625.2	14.8 15.9	96.1 101.1	2 039.9 2 154.9
Fuels	1960 1961	20.7 20.7	123.8 116.5	3.3 2.9	0.2 0.2	195.4 204.7	491.9 554.1	161.9 169.9	343.5 388.5	1.6 12.5	8.4 7.9	0.5 0.5	269.1 250.9	1 620.3 1 729.3
Chemicals	1960 1961	32.5 21.4	199.2 186.8	44.6 52.0	4.3 5.9	438.3 467.0	927.7 1 025.7	194.2 243.8	251.4 283.1	59.1 61.5	53.1 57.8	262.2 283.9	660.4 678.7	3 127.0 3 367.6
Textiles	1960 1961	63.3 67.9	280.8 298.9	20.4 21.3	4.1 5.3	406.8 411.5	287.9 308.1	326.5 354.6	215.2 232.1	7.3 8.3	17.4 24.0	137.9 140.2	547.5 525.6	2 315.1 2 397.8
Base metals ^b	1960 1961	181.5 188.6	939.3 867.6	14.1 16.0	9.3 12.9	746.2 769.5	1 025.3 1 144.5	172.8 143.3	197.9 186.4	173.4 174.3	172.2 198.7	34.8 32.2	662.6 656.9	4 329.4 4 390.9
Machinery and metal manufactures	1960 1961	135.0 152.0	342.9 357.9	159.5 175.2	34.9 43.7	730.6 826.9	2 532.8 3 178.5	532.4 637.1	453.7 524.4	37.7 41.3	393.1 455.0	420.7 485.3	2 287.3 2 589.4	8 060.6 9 466.7
Transport equipment	1960 1961	27.3 28.6	137.6 163.7	50.0 43.6	43.0 5.1	678.6 618.5	1 365.1 1 418.5	311.1 365.9	138.2 159.4	33.6 52.5	231.0 250.0	8.5 9.7	1 260.1 1 168.4	4 284.1 4 283.9
Other commodities ^c	1960 1961	115.4 155.1	418.0 486.7	81.2 86.1	7.3 9.3	683.4 679.5	1 088.9 1 181.7	453.6 524.9	256.3 281.2	21.3 26.0	91.9 107.3	353.1 395.2	936.9 1 026.2	4 507.3 4 959.2
TOTAL EXPORTS	1960 1961	824.0 890.4	2 796.1 2 884.6	1 063.1 1 089.2	697.0 746.6	5 035.9 5 293.7	8 204.1 9 351.2	2 726.5 3 029.2	2 938.8 3 178.8	645.8 690.8	1 847.9 1 998.9	1 328.7 1 468.9	7 376.8 7 687.7	35 484.7 38 310.0

^a Excluding re-exports.
^b For 1961 — divisions 67 and 68.
^c For 1960 — including division 67.

Sources: National trade statistics; OEEC, *Statistical Bulletins—Foreign Trade*, Series B; Office statistique des communautés européennes (Brussels), *Statistique mensuelle du commerce extérieur*.

APPENDIX TABLE C
Output of major industrial products in eastern Europe and the Soviet Union

Country and product	Unit	1959	1960	1961		1962 Plan	Country and product	Unit	1959	1960	1961		1962 Plan		
				Plan	Actual						Plan	Actual			
Bulgaria															
Coal	Million tons	15.4	17.1	18.7	18.6	21.5	Czechoslovakia (continued)	Thousand	296.5	217.5	..	..	..		
Crude oil	Million MWh	0.19	0.20	..	0.21	..			188.7	191.3	..	188.9	..		
Electric power	Million MWh	3.87	4.66	5.43	5.4	6.4			50.6	56.2	59.4	58.8	..		
Crude steel	Million tons	0.23	0.25	0.39	0.34	0.41			29.2	32.5	35.2	27.8	..		
Rolled products ^a	Thousand tons	0.17	0.19	0.34	0.27	0.33			..	..	..	..	..		
Nitrogenous fertilizers (N)	Thousand tons	62	84	..	88	94.6			..	..	..	..	..		
Phosphate fertilizers (P ₂ O ₅)	Thousand tons	31	41	..	56	76.5			214.8	225.5	..	217.2 ^b	..		
Sulphuric acid	Thousand tons	90.7	122.6	211.0	192.0	256.8			37.2	40.3	..	38.5 ^b	..		
Plastics	Thousand tons	2.54	8.6	10.0	10.0	14.6			1.90	1.99	1.94 ^c	1.86 ^b	..		
Cement	Thousand tons	1.43	1.59	1.94	1.74	2.11			3.21	3.34	3.48 ^c	3.15 ^b	..		
Cotton fabrics	Million metres	209	218	213	226	234			2.49	2.61	2.57 ^c	2.18 ^b	..		
Woollen fabrics	Thousand tons	18.6	18.7	16	17	17.2	Thousand tons	138.8	165.8	193 ^c	158.7 ^b	..			
Silk fabrics	Thousand tons	9.5	10.7	..	10	10.1		562.4	595.9	712 ^c	609.4 ^b	..			
Footwear (all)	Thousand	7.8	7.5	..	9.3	11.0		559.2	593.7	..	544.2 ^b	..			
Radios	Thousand	128	157	..	146	190		887.5	922.7	1013 ^c	866.5 ^b	..			
Television sets	Thousand	..	..	..	6	15		4.21	5.03	..	4.89 ^b	..			
Czechoslovakia															
Hard coal	Million tons	25.12	26.21	26.5	26.4	27.6		Hungary	Thousand tons	19.8	22.1	..	21.5 ^b	..	
Brown coal and lignite	Thousand tons	53.70	58.40	63.2	64.6	67.8				41.73	47.4	52.3 ^c	46.9 ^b	..	
Crude oil	Thousand tons	123	137	..	..	..				289.7	416.5	560 ^c	339.0 ^b	..	
Electric power	Million MWh	21.88	24.45	27.21	26.97	29.7				Thousand tons	86.58	138.57	163 ^c	150.5 ^b	..
Iron ore	Million tons	2.97	3.12	3.28	3.3	3.3					107.69	132.46	149 ^c	193.4 ^b	..
Pig iron	Thousand tons	4.24	4.70	5.16	4.97	5.45	25.4				26.5	28.0	28.2	..	
Crude steel	Thousand tons	6.14	6.77	7.46	7.04	7.92	1.04				1.22	1.44	1.5	..	
Rolled products ^a	Thousand tons	4.01	4.48	5.08	4.67	5.34	7.1				7.62	8.31	8.37	..	
Steel tubes	Thousand tons	553	629	722	742	..	1.10				1.25	1.29	1.31	..	
Nitrogenous fertilizers (N)	Thousand tons	133.3	139.9	151.4	144.1	..	1.76				1.89	2.04	2.1	..	
Phosphate fertilizers (P ₂ O ₅)	Thousand tons	135.2	147.0	161.0	167.4	..	1.14				1.23	1.43	1.45	..	
Sulphuric acid (SO ₃)	Thousand tons	513.3	553.2	633.4	599.1	875.9	0.94	1.19	1.26		1.4	..			
Artificial fibres	Thousand tons	58.1	62.3	69.7	69.0	..	45.7	49.5	51.0		51.1	..			
Plastics	Thousand tons	53.6	69.6	79.8	77.6	..	Thousand tons gross weight	245	279		336	330	..		
Cement	Thousand tons	4.74	5.05	5.55	5.34	..	Thousand tons gross weight	231	266	310	327	..			
Bricks	Billion	2.38	2.42	2.62	2.47	..	148	164	..	186	..	..			
Prefabricated building parts	Thousand tons	1.38	1.74	2.26	2.05	..	1.43	1.57	1.73	1.6	..	..			
Cotton fabrics	Million cu.m.	441.6	463.9	461.5	466.6	..	1.66	1.77	1.8	1.8	..	..			
Woollen fabrics	Million metres	45.5	46.2	46.6	47.6	..	226	240	252	256.1	..	..			
Silk fabrics	Thousand tons	60.6	65.1	71.4	73.0	..	24.9	27.6	29.2	29.8	..	..			
Linen fabrics	Thousand tons	65.06	66.95	66.71	68.44	..	17.7	21.3	23.2	23.2	..	..			
Rubber footwear	Thousand	36.40	38.34	37.8	37.3	..	88.1	139.8	179.9	178.1	..	..			
Leather footwear	Thousand	39.16	44.10	45.6	46.4	..	263.5	211.6	..	245.5	..	..			
Radios	Thousand	280.5	229.9	..	..	..	83.5	144.3	..	124.6	..	..			
Television sets	Thousand	196.6	262.9	340.0	333.9	..	66.91	57.5	..	12.0	..	..			
Domestic refrigerators	Thousand	103.7	132.4	..	157.2	..	2.28	2.65	..	55.1	..	..			
													2.5		

APPENDIX TABLE C (concluded)

Output of major industrial products in eastern Europe and the Soviet Union

Country and product	Unit	1959	1960	1961		1962 Plan	Country and product	Unit	1959	1960	1961		1962 Plan
				Plan	Actual						Plan	Actual	
Poland													
Hard coal	Million tons	99.1	104.4	105.5	106.6	109.0	Rumania (continued)	Million pairs	28.3	30.2	..	31.1	..
Electric power	Million MWh	26.4	29.3	31.9	32.2	35.3		Thousand	167	167	..	210	..
Iron ore crude	..	2.0	2.2	2.5	2.5	2.6		Bicycles	157	243	300	272	..
Pig iron (in terms of open hearth)	Million tons	4.37	4.56	4.77	4.77	5.35		Domestic refrigerators	3.8	10.5	30	..	..
Crude steel	..	6.2	6.7	7.1	7.2	7.7		Domestic sewing machines	40.6	52.6	60	..	..
Rolled products ^a	..	4.1	4.4	4.8	4.8	5.2		Tractors	11	17.1	..	..	..
Soviet Union													
Nitrogenous fertilizers (N)	Thousand tons	256.0	270.2	273.4	281.6	301.3	Coal	Million tons	506.6	513.2	513.2	510.0	515.1
Phosphate fertilizers (P ₂ O ₅)	..	174.0	207.0	230.0	235	259	Crude petroleum	..	129.6	147.9	164.2	166.0	184.3
Sulphuric acid (H ₂ SO ₄)	..	610	685	804	794	879	Natural gas	Billion cu.m.	37.3	47.2	63.2	60.9	72.5
Calcined soda (98 per cent)	..	457	533	527	536	545	Electric power	Million MWh	265.1	292.3	327.4	327.0	366.2
Caustic soda (96 per cent)	..	159	174	184	186	194	Iron ore (in terms of dressed ore — 65 per cent of ore)	..	94.0	106.0	..	118.0	..
Cement	Million tons	5.3	6.6	7.3	7.4	7.8	Pig iron	Million tons	43.0	46.8	51.0	50.9	56.0
Bricks	Billion	3.47	3.49	4.07	3.29	3.81	Crude steel	..	60.0	65.3	71.2	70.7	76.4
Cotton fabrics	Million linear metres	637	667	679.5	709.8	705	Rolled steel ^a	..	47.0	51.0	55.4	55.2	59.6
Woollen fabrics	..	80.3	78.9	75.3	77.6	83.3	Steel tubes	..	5.23	5.8	..	..	..
Silk fabrics	..	105.0	112.0	115.5	111.1	111.0	Chemical fertilizers ^e	..	12.9	13.9	..	15.3	17.1
Footwear (all)	Million pairs	37.5	39.0	..	39.0	44.0	Sulphuric acid	Thousand tons	5.09	5.4	..	..	..
Wireless sets	Thousand	749.0	623	585.0	581.5	750.0	Artificial and synthetic fibres	..	179.5	211.2	253.4	250.0	280.0
Television sets	..	117.0	171.3	230.0	230.8	300.0	Tyres	Million	15.5	17.2	..	..	..
Domestic sewing machines	..	171.0	209.0	240.0	232.0	270.0	Cement	Million tons	38.8	45.5	51.0	50.9	57.0
Motor-cycles and scooters	..	103.0	122	125.5	166.4	136.5	Bricks ^f	Billion	32.1	34.0	..	..	..
Motor-cars	..	14.2	12.9	14.4	14.4	15.0	Prefabricated concrete structures and parts	Million cu.m.	25.4	32.3	..	38.0	39.0
Tractors (two axes)	..	3.04	7.7	11.5	10.5	12.6	Roofing slates	Million slates	260	300	..	340	..
							Soft roofing	Million sq.m.	690	748	..	793	..
							Cotton fabrics	Billion sq.m.	4.6	4.8	..	4.9	..
							Woollen fabrics	..	0.42	0.44	6.52	0.46	..
							Linen fabrics	..	0.48	0.52	..	0.49	..
							Silk fabrics	..	0.66	0.68	..	0.68	..
							Leather shoes	..	389.5	419.3	440.3	442.0	..
							Wireless sets	..	4.04	4.17	..	4.20	..
							Television sets	..	1.28	1.73	..	1.95	2.18
							Domestic refrigerators	..	426.1	529.5	..	686	823
							Domestic washing machines	..	724	933.1	..	1 300	1794
							Domestic sewing machines	..	2.94	3.10	..	3.30	..
							Motor-cars	..	124.5	138.8	..	149.0	..
							Tractors	..	212.9	238.5	..	..	..
Rumania													
Coal	Million tons	7.98	8.16	..	8.73	..	Million pairs	25.4	32.3	..	38.0	39.0	
Crude oil	..	11.44	11.50	..	11.73	11.85	Thousand tons	260	300	..	340	..	
Methane gas	Billion cu.m.	5.78	6.52	..	7.17	..	Million sq.m.	690	748	..	793	..	
Electric power	Million MWh	6.82	7.65	8.82	8.64	..	Billion sq.m.	4.6	4.8	..	4.9	..	
Iron ore	..	1.06	1.46	..	..	1.6	..	0.42	0.44	6.52	0.46	..	
Pig iron	..	0.85	1.01	1.08	..	2.5	..	0.48	0.52	..	0.49	..	
Crude steel	..	1.42	1.81	2.1	2.14	1.9	..	0.66	0.68	..	0.68	..	
Rolled products ^a	..	0.82	1.25	1.51	..	..	..	389.5	419.3	440.3	442.0	..	
Sulphuric acid (H ₂ SO ₄)	Thousand tons	199	226	..	249	..	Million pairs	4.04	4.17	..	4.20	..	
Soda ash (Na ₂ CO ₃)	..	104	180	..	234	..	Million	1.28	1.73	..	1.95	2.18	
Caustic soda (NaOH)	..	64	74	..	128	..	Thousand	426.1	529.5	..	686	823	
Nitrogenous fertilizers (N)	..	..	18.9	..	86.6	130	Domestic refrigerators	724	933.1	..	1 300	1794	
Phosphate fertilizers (P ₂ O ₅)	..	..	52.1	..	..	..	Domestic washing machines	2.94	3.10	..	3.30	..	
Cement	Million tons	2.85	3.05	..	3.29	..	Domestic sewing machines	124.5	138.8	..	149.0	..	
Cotton fabrics ^a	Million sq.m.	218	248	..	283	..	Motor-cars	212.9	238.5	..	..	..	

^b Eleven months' output only.

^c As shown in the framework of the Seven-year Plan (1959-1965), published 1 October 1959.

^d Including mixed fabrics.

^e Gross weight in which are included: nitrogenous fertilizer in terms of sulphate of ammonia; phosphate fertilizer of 19 per cent P₂O₅ content; potash fertilizer of 41.6 per cent K₂O content.

^f Excluding collective farm output.

Sources: National statistical yearbooks, bulletins, plans and plan fulfilment reports; *Statistical Indicators of Short-term Economic Changes*, ECE, Geneva; *Rabotnichesko delo*, 17 and 21 December 1960, 27 October, 2, 3 and 4 November 1961; *Hospodarski Noviny*, No. 8 and No. 49, 1961; *Rude Pravo*, 1 December 1961 and 20 February 1962; *Uhl*, No. 9, 1961, p. 290; *Planovane Hospodarski*, No. 9, 1961, p. 782; *Gospodarka Planowa*, No. 12, 1961, p. 5; *Trybuna Ludu*, 21 December 1961; *Monitor Polski* (Official Gazette) No. 97, 1960 and No. 99, 1961; *Pravda*, 7 December 1961, 23 January 1962; *Narodnoe khozyaistvo SSSR v 1960 godu*; and *Die Lander der Volksdemokratie*, No. 3, 1942, p. 58.

^a Excluding tubes.

NOTES ON SOURCES

General

As in previous years, the statistics given should be regarded in the first place as basic documentation for the economic analysis made in the SURVEY. They are therefore somewhat different in nature from statistics normally published in statistical yearbooks and other publications of a purely statistical nature. First, when no official figures are available, it is often preferable to have an estimate rather than no figure at all. Consequently, estimated figures which have a wider margin of error than is usually allowed in statistical publications are sometimes shown in the various tables. In the second place, the available national statistics have often been adjusted, for the sake of comparability among countries, to more uniform definitions. For this reason, the figures shown differ in many instances from those given in national publications, or in other publications of the United Nations and its specialized agencies. Finally, the methods of compilation have been chosen with a view to the special use for which the data are intended. This does not necessarily mean that for other purposes other methods might not have been preferable.

Where a table gives totals for a number of countries, these totals always refer to the same group of countries for each period shown. In cases where figures for a given country are

not available for one or more periods, estimates of these missing figures are included in the totals. Except where otherwise stated, area totals include estimates for those countries for which no data are available, or assume that the series for the missing country moved in proportion to the average for the other countries.

Slight discrepancies between constituent items and the totals shown in the tables are due to rounding.

In most cases, the tables include information received up to the end of February 1962. In general, the more recent figures are to be regarded as provisional, and subject to revision.

Reference to sources

In Part I of the SURVEY the sources used and the methods applied have been given under each table. For a list of statistical yearbooks, statistical bulletins, sources for national trade statistics and other national statistics, see the *Economic Survey of Europe in 1960*, Appendix B.

In the sources to certain tables relating to eastern Europe and the Soviet Union, reference is made to plans and plan fulfilment reports. The sources in which such information can be found are set out in the table below (reference is to the list of sources following the table).

Country	Plan					Plan fulfilment report	
	1961	1962	1965	1965 Revisions	1970-1980	1960	1961
Albania	..	^a	A (4 and 5.59)	A (2.61)	..	A (2.61)	B (28.I.62)
Bulgaria	C (21.XII.60)	C (4.XI.61)	..	..	..	C (28.I.61)	C (28.I.62)
Czechoslovakia	D (23.XII.60)	^a	D (9.VII.60)	^b	^b	D (8.II.61)	D (3.II.62)
Eastern Germany	..	..	E	..	..	F (3.II.61)	..
Hungary	G (1.I.61)	G (24.XII.61)	H (X.59)	I (17.X.61)	..	G ^c (29.I.61)	G (21.I.62)
Poland	J (31.XII.60)	J (30.XII.61)	K (IV.59, VII.60)	^b	..	L (9.II.61)	L (6.II.62)
Rumania	M (1.XI.60)	M (27.XII.61)	M (19.V.60, 21.VI.60)	..	M (19.V.60, 21.VI.60)	M (8.II.61)	M (3.II.62)
Soviet Union	N (21.XII.60)	N (7.XII.61)	N (8.II.59)	N (18.X.61)	N (19.X.61)	N (26.I.61)	N (23.I.62)

^a No 1962 Plan was published as such, some figures which are available were published in various sources and are given in respective tables.

^b Some figures were published and are given in respective tables.

^c Covers three years.

ALBANIA

A Komision të planit të shtetit: *Ekonomia popullore*. Every two months.

B *Zëri i popullit*. Daily.

BULGARIA

C *Rabotnichesko delo*. Daily.

CZECHOSLOVAKIA

D *Rudé Právo*. Daily.

EASTERN GERMANY

E *Der Siebenjahrplan der Deutschen Demokratischen Republik — das Program für den Sieg des Sozialismus*: Gesetz über den Siebenjahrplan zur Entwicklung der Volkswirtschaft der Deutschen Demokratischen Republik in den Jahren 1959 bis 1965 (Beschlissen von der Volkskammer der Deutschen Demokratischen Republik am 1. Oktober 1959) — Der Siebenjahrplan des Friedens, des Wohlstandes und des Glücks des Volkes (Rede des Ersten Stellvertreters des Vorsitzenden des Ministerrats

der DDR, Walter Ulbricht, vor der Volkskammer der DDR). 1959.

F *Neues Deutschland*. Daily.

HUNGARY

G *Népszabadság*. Daily.

H *Társadalmi Szemle*. Monthly.

I *Magyar Közlöny* (Official gazette). Frequent but irregular.

POLAND

J Urząd Rady Ministrów: *Monitor Polski*. Irregular.

K Komitet Centralny Polskiej Zjednoczonej Partii Robotniczej: *Nowe drogi*. Monthly.

L *Trybuna Ludu*. Daily.

RUMANIA

M *Scînteia*. Daily.

SOVIET UNION

N *Pravda*. Daily.

CORRIGENDA

Economic Bulletin for Europe, Vol. 13, No. 1

Page 27, first column, first line of third paragraph, *read* A new credit of 112.5 million new roubles (\$125 million)...

Page 27, second column, second paragraph, last but one line, *read* the Soviet Union 40 million roubles (\$44 million) to Somalia.

Economic Bulletin for Europe, Vol. 13, No. 2

Page 46, footnote 107, third line, *read* \$1.5 billion.

Page 75, footnote 94, *delete* last sentence.

Economic Survey of Europe in 1960

Chapter V, Table 6, last row, fifth column, *for* 10.5 *read* 3.5; final column, *for* 15.0 *read* -10.0

Chapter VI, page 44, note *a*, last line, *read* and 1955/56-1958/59. For

Appendix A, Table XVII, title of table, *read* Soviet Union 1953, 1958 and 1959.

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